FINANCIAL TIMES

Start the week with...

US defence spending

Reaping the peace dividend

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European growth

Prospects are better than many think

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NationsBank

The ambitions of Hugh McColl

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World Business Newspaper http://www.FT.com MONDAY AUGUST 18 1997

European fruit prices set to rise after poor crop

Fruit growers in the Mediterranean face their worst harvests in ten years, and Europe's consumers may see price increases for both fresh and processed fruits. The problems arise from late frosts and summer gales. Production of Italian pears, peaches and apples is likely to be 60 per cent below average. Page 15

UPS talks continue: United Parcel Service, the largest parcel carrier in the US, and the striking Teamsters union have pledged to stay at the negotiating table despite four days of largely fruitless talks with a federal mediator. They are trying to settle the two-week strike over a new labour contract and pension changes. Page 2

NationsBank chief bullish: NationsBank's acquisition of Montgomery Securities will create an entity capable of going "head to head with Goldman Sachs and Morgan Stanley and whoever else is there", chief executive Hugh McColl told the Financial Times. Page 15

Azteca offering succeeds: The fast-growing Mexican media company Televisión Azteca has successfully placed Mexico's biggest initial public offering since the 1994 peso devaluation, in spite of an outstanding legal dispute with US television network NBC. Page 14

HK dollar faces pressure: Hong Kong's financial authorities are on alert after signs that currency speculators are turning their attention to the territory. European bankers predict a speculative attack on the HK dollar – the last currency to be linked to the US dollar. Page 14

Royal yacht plan: UK defence chiefs have drawn up a shortlist of six bidders to turn the royal yacht Britannia into a tourist attraction and conference centre, days after the British government said it wanted to retain the vessel for the royal family. Page 4

Oil rig protests ends: The Greenpeace occupation of the Stena Dee mobile oil rig in the North Atlantic has ended after nine days with the environmental pressure group claiming that four of its members had been arrested. Page 4

UK 'not ready for Emu': With 500 days to go until the launch of Emu, a survey of UK corporate treasurers has found many companies unprepared for a single currency. Page 15

Japan's PM takes on bureaucrats: Plans to restructure Japan's unwieldy bureaucracy have pitted the administration of prime minister Ryutaro Hashimoto against the country's bureaucratic elite. Page 3

Regent Pacific targets Lebanon: Hong Kong's Regent Pacific is preparing to raise $50m to invest in listed Lebanese equities, according to its corporate finance director. Regent Pacific – an emerging market specialist – will be raising the funds in September. Page 3

Doohan takes his fourth world title:

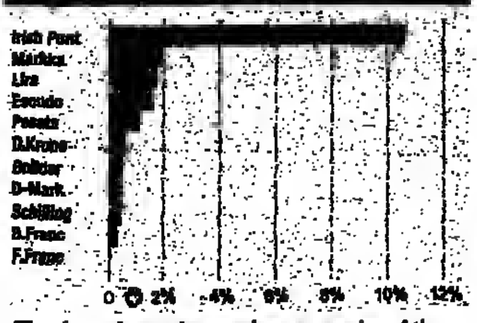
Australia's Michael Doohan, left, rode his 500cc Honda to victory in the British Motorcycle Grand Prix at Donington Park, clinching his fourth successive world title. The 32-year-old from Brisbane, who is now based in Monaco, has dominated this season with 10 victories in 11 races, and his fourth championship places him level with Giacomo Agostini and Mike Hailwood.

Esso loses court case: Esso petrol retailers in the UK won a victory in Britain's High Court when a judge ruled that Esso cannot force them to buy any products other than petrol without breaching EU competition rules. Page 15

Healthy prospects: The first degree course in traditional Chinese medicine outside China has been set up at Britain's Middlesex University. Students on the five-year course can hone their skills during placements in China.

European monetary system: The recovery in the German D-Mark late in the week helped pull its core neighbours upwards, at the expense of the Spanish, Finnish and Italian currencies. Further signals by the Bundesbank this week that interest rates will rise could see the lira take a tumble. Currencies, page 21

EMS: Grid Aug 16 1997



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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Senior marketmakers predict heavy losses after 3.1% New York fall

Europe set to follow Wall St

By Steve Thompson in London, Mark Suzmann in Washington and Ralph Atkins in Bonn

European stock markets are expected to come under pressure this morning as they respond to the 3.1 per cent fall on Friday in Wall Street's Dow Jones Industrial Average.

Senior marketmakers in London said they expected the FTSE 100, which fell 2.5 per cent on Friday, to open sharply lower, down between 50 and 100 points, because only half of Wall Street's eventual fall on Friday – 247 points – took place during London trading hours.

The Paris, Milan and Madrid bourses are expected to post heavy losses this morning as they catch up with events in London and New York. They were closed on Friday for the Assumption Day holiday. Of the European stock markets that remained open, Amsterdam fell 4 per cent and Frankfurt 2.8 per cent.

"There will be an initial mark-down and we'll have to take it from there," one marketmaker said of London. "If the institutions choose to sell, the pressure will soon tell."

He insisted that Friday's 125.5 decline in London - its biggest points fall since the crash of October 1987 – had occured without any really heavy selling taking place. In the background to the sudden bout of weakness that affected world markets was a steep decline in the dollar against the D-Mark.

This came amid fears that Thursday's meeting of the Bundesbank Council – the first since the summer break – could see a rise in German interest rates to counter inflationary pressures and to arrest the slide in the German currency over recent months.

Also giving the markets cause for concern was a lingering worry that the US Federal Reserve's Open Market Committee might increase US interest rates after its regular monthly meeting in Washington tomorrow

Most market observers said they expected the Fed to hold rates. Simon Knapp at BZW said he expected "no action after the meeting, with growth not too boisterous and inflation very well behaved".

Richard Jeffrey, group economist at marchant bank Charterhouse, said: "Between now and the end of the year London will find itself going through a bear phase, perhaps losing as much as 10 per cent of its current value. The authorities will have to tighten monetary policy more than previously contemplated."

The Bundesbank could tighten monetary policy tomorrow through its securities repurchase tender (repo), but the dollar's decline on Friday might have eased the pressure for a tightening. The repo rate was again fixed last week at 3 per cent but a switch to a variable rate tender could see a modest rise in interest rates.

In its latest monthly report last week, the Bundesbank noted consumer price rises had strengthened in recent months and said that the "risks for stability-orientated policies" would be watched closely. While there had been fears that the US Federal Reserve might follow its March decision to raise rates by 0.25 per cent to 5.5 per cent with another increase, a number of positive economic statistics last week confirmed that current growth has not had a serious impact on inflation so far. Producer prices fell for an unprecedented seventh consecutive month in July and the consumer price index rose by only 0.2 per cent.

Nevertheless, economists warned that a 0.6 per cent rise in retail sales could be a sign of inflationary pressures in the future, and many feel that a rise in interest rates later on in the year is still likely.

World stocks, Page 27

German leader seeks to counter notion that stability is low priority

Kohl stresses need for a secure euro

Helmut Kohl, the German chancellor: unlikely to achieve significant net tax cuts before national elections next year Reuter

By Ralph Atkins in Bonn

Helmut Kohl, the German chancellor, has insisted his commitment to European integration would not override the need to ensure the stability of the planned European single currency.

In a ZDF television interview broadcast last night, Mr Kohl emphasised that the currency's long-term stability was as important as achieving the targets set for members of the euro bloc this year and in 1998.

He said an impression had developed in financial markets that the single currency would come but that stability was not an important consideration.

"That is a mistake," he stressed. Relegating stability to second or third place in importance "is a price that I will not pay".

It was crucial that the new currency was backed by an "energetic, powerful" European central bank, the chancellor added.

His comments appeared designed to reassure his domestic audience, as well as financial markets, about the underlying strength of the euro, due to be introduced from 1999. But they also risked restricting Mr Kohl's room for manoeuvre if, as many economists expect, Germany and France fail to meet exactly the target set for euro members' public sector deficits of 3 per cent of gross domestic product.

Highlighting the acute budget pressures facing Germany, the government is considering a two-percentage-point increase in value added tax to 17 per cent from next year to help finance tax reforms and a cut in statutory pension contributions.

The ruling centre-right coalition's plans for sweeping tax reforms have been blocked by the opposition Social Democratic Party, which controls the Bundesrat, or second chamber of parliament.

In his interview, Mr Kohl cited an appeal from the Bundesbank last week for urgent reform of Germany's complex and inequitable tax system.

A deal next month with the SPD on cutting non-wage labour costs is possible, but the chancellor seems unlikely to achieve significant net tax cuts before national elections in September 1998.

The Bonn government continues to be rattled by sceptical comments from Edmund Stoiber, the Bavarian prime minister and a senior figure in the Christian Social Union – the sister party to Mr Kohl's Christian Democrats. At the weekend, Mr Stoiber again proposed a two-year delay in the euro's launch date if France or Germany failed to meet the entrance criteria.

But in a pointed rebuttal yesterday, Klaus Kinkel, Germany's foreign minister, said: "Those who attempt to sow doubt about the punctual start of the euro damage the German economy and those in Germany who are hoping to find a job."

Mr Kinkel added: "The euro must and will come punctually on January 1 1999, with strict adherence to the agreed stability criteria. That is, and remains, the policy of the federal government."

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Many companies unprepared for emu, Page 15

Turkey passes school law to end influence of Islam

By John Barham in Ankara

Turkey's parliament has approved a controversial education law designed to stamp out the political influence of Islam in schools.

Islamist activists staged noisy protests across Turkey but failed to block the legislation, which was passed by 277 votes to 242 on Saturday after three days of debate.

The chief provision of the law, a critical battleground between Islamists and the secular establishment in Nato-member Turkey, extends the time children must spend in compulsory state secular education from five years to eight.

The Islamists, led by the opposition Welfare party, say the law will mean many children who currently transfer after five years to state-funded religious schools will no longer be able to do so.

But Mesut Yilmaz, the prime minister, accused Welfare of treating religious schools as training grounds for its activists. "[Welfare] wants to preserve the schools to raise new militants for them," he said. "No government can allow such a development. The schools cannot be a backyard or training ground for a political party."

Necmettin Erbakan, Welfare's leader, said the law was "a product of fascist secular thinking that challenges the will of the people". He promised to challenge it in the courts. In June, the army forced Mr Erbakan from power as Turkey's first Islamist prime minister for resisting its demand for secularist reforms that included an extension of compulsory education.

The reforms, first proposed nearly 25 years ago but resisted by Islamists, are supported by the secularist majority, which fears Islamist infiltration of the schools will brainwash their children.

The reforms will begin to take effect during the next school year. The government calculates that Turkey will need almost 200,000 new teachers and 150,000 new classrooms to accommodate about 800,000 new pupils a year.

The total cost is expected to be more than $6.31bn, spread over three years. The government is imposing new taxes on alcohol, tobacco, mobile telephone users and lotteries to raise part of the money, and plans to approach the World Bank and other lenders for additional finance.

The government has appealed to business and ordinary people to volunteer money. The Istanbul Stock Exchange gave $200m, and the public has donated $1.2m.

While teachers support any effort to improve Turkey's dismal education standards, they fear that insufficient funds could worsen already severe overcrowding. Some schools cram 100 children into one classroom.

Educationalist Ibrahim Betil said: "If the government can raise sufficient funds and spend them properly, it would be wonderful. But without sufficient resources this could harm children."

Supplier of tills sued over 'millennium bomb'

By Christopher Adams in London

A small supermarket owner in the US is suing a cash register supplier for allegedly providing computerised tills that cannot recognise the year 2000.

The lawsuit is believed to be the first of its kind. If it is successful, it could set a precedent with dangerous consequences for the insurance industry.

Mark Yarsika, a supermarket owner in Detroit, is suing Tec-America, the Atlanta-based supplier of cash registers, because he says credit cards that expire after 2000 cause the tills to shut down.

The lawsuit has wide implications for the insurance industry as suppliers may be forced to make claims on insurance policies covering them against the failure of their products to cope with the date change.

Legal experts say insurers might be inundated with claims over the so-called "millennium bomb", leaving them vulnerable to losses that could run to billions of pounds.

The millennium bomb is expected to cause widespread chaos because most computers recognise only the last two digits of a year and will treat dates beyond 1999 as referring to the 1900s.

Should litigation escalate, the cost of claims could be inflated by damages and legal fees.

Mr Yarsike owns three Produce Paradise supermarkets in Detroit. He says the cash registers have failed more than 150 times in two years, causing chaos in his stores and losing him hundreds of thousands of dollars.

Mr Yarsike says his patience with Tec-America finally snapped two weeks ago. He says that each time credit cards expiring after 2000 cause cash resisters to shut down, Tec-America comes to fix the problem. But within hours, the registers fail again.

"It's gotten pretty wild in here. A lot of customers walk

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Luzhkov's deputy predicts his boss will take over from Yeltsin in next Russian leadership contest

Moscow mayor eyes presidential role

By Chrystia Freeland in Moscow

Moscow's deputy mayor said at the weekend he expected his boss, Yuri Luzhkov, to be elected Russia's next president, in the clearest sign yet that the capital's powerful mayor is eying the Kremlin.

"If, for some reason, there is no longer Yeltsin, and if there are normal, fair elections, then I think that Yuri Mikhailovich [Luzhkov] will be elected, and that will be a blessing for the people," said Valery Shantsev, deputy mayor and Mr Luzhkov's running mate in last year's mayoral ballot.

Mr Luzhkov's popularity in the Russian capital – he was elected with nearly 90 per cent of the vote – and the mighty political machine he has built up through his control of the town hall have long made him one of the bookmakers' favourites for Russia's next presidential contest. However, Mr Luzhkov, who has always taken great pains to prove his loyalty to President Boris Yeltsin, has been uncharacteristically shy about his political ambitions, always insisting in public that he has no presidential aspirations.

As well as breaking with the town hall's traditional reticence about the mayor's possible bid for the Kremlin, Mr Shantsev lashed out at the factions in charge of Russia's federal government.

While careful to praise Mr Yeltsin, he lambasted the cabinet, saying its promises of economic stabilisation were "a deception" and that the ministers were paralysed by internal rivalries.

"They all say that everything is wonderful, that everything has stabilised. Where is this stabilisation? Wherever you go, everything is at a standstill," Mr Shantsev said in an interview. "Their [federal cabinet] team is a swan, a crab and a pike. The prime minister has one position, Chubais [Anatoly Chubais, a reformist first deputy prime minister] has another position, Nemtsov [Boris Nemtsov, another reformist first deputy prime minister] has a third," he said.

The animosity between Mr Luzhkov's team and that of Mr Chubais is legendary, with the two titans clashing over almost all the key issues of market reforms. Mr Shantsev hinted that the rivalry might go so deep as to poison Russia's next presidential ballot, warning that the Kremlin ruling elite might resort to skulduggery to block the Moscow mayor.

Even if Mr Luzhkov is opposed by the Kremlin's political masters, it is easy to see why Mr Shantsev is confident that the mayor, who has already inspired an eau de cologne and whose life-story is being made into a movie, will be the next president.

Moscow is in the throes of grandiose preparations for the celebration of its 850th anniversary. Featuring a performance by Luciano Pavarotti and a holographic appearance of the Virgin Mary in the sky, the extravaganza is widely seen as an early effort to boost Mr Luzhkov's image nationwide.

After the party is over, the mayor will retain the two instruments vital to any bid for the Russian presidency: money and a national television network. Next month TV-Centre, a television network owned by the city, will be formally launched. It is the sort of venture Mr Luzhkov can afford to finance, thanks to Moscow's roaring economy and the city government's policy of taking a stake in many new businesses in town.

Yuri Luzhkov: Kremlin ambitions

INTERNATIONAL NEWS DIGEST

Clinton threat to tobacco deal

Bill Clinton, US president, is expected to demand further concessions from tobacco companies before agreeing to the proposed $368.5bn deal to settle outstanding anti-smoking lawsuits, after a Treasury study showed it would not have a significant impact on the industry's profitability.

He may also try to increase the cost of the settlement to offset a controversial $50bn tax credit inserted in last month's tax bill by Republicans to compensate for a 15 cents a packet tax increase.

The Treasury analysis is reported to show that while the deal would help reduce teenage smoking, companies could fund the settlement without undue difficulty through a price rise of around 62 cents a packet.

Critics say this is unacceptable, and Hubert Humphrey, Minnesota attorney general and a prominent opponent of the settlement, met White House officials on Friday to press for a price increase of at least $1.50-$2 a packet. However, the tobacco companies' lawyers warned that any important financial or regulatory changes to the settlement terms would be unacceptable to the industry. *Mark Suzman, Washington*

Editorial comment, Page 13

■ MEXICO KILLINGS

Minister's brother shot dead

The brother of Guillermo Ortiz, Mexico's finance minister, was shot dead on Saturday in an incident that many Mexicans suspect was more than a simple robbery attempt.

Alejandro Ortiz Martinez, 55, a bank official, died after being shot by three gunmen as he stepped out of his Mercedes Benz in a chic neighbourhood of Mexico City. Police said the crime was a robbery attempt, but some observers said it looked more like a murder. The gunmen fled without stealing the car.

The killing was the latest in a series in the capital. On Saturday, Jorge Banuelos Orta, 61, a government budget director, was clubbed to death and stuffed into the boot of his own car.

On July 13, an official in the finance ministry, Pedro José Alvarez Porras, was gunned down after a car chase. In May and June, three other officials were murdered in the capital. *Reuter, Mexico City*

■ ILLINOIS BRIBES TRIAL

State supplier found guilty

Management Services of Illinois, a Springfield-based services company and big state government supplier, was found guilty at the weekend of bribery and mail fraud, in a case that has turned the spotlight on contract awards in Illinois.

The jury – having heard evidence of bribes in cash, free trips and lobster and beef shipments – also found MSI's former owner and an ex-public aid supervisor guilty of fraud and bribery charges. MSI's current owner was found not guilty.

The verdict comes just ahead of an expected decision by Jim Edgar, Illinois' current governor, on whether to run as Republican candidate in next year's gubernatorial election. Mr Edgar says it was his administration that launched the investigation into MSI, but his opponents are expected to try to capitalise on the issue. MSI was a significant contributor to Mr Edgar's previous campaigns.

During the trial, Mr Edgar was subpoenaed to give evidence for the defence, becoming the first sitting governor in 75 years to appear as a witness in a criminal trial. *Nikki Tait, Chicago*

■ ISRAELI ECONOMY

Growth below projections

Israel's economy grew by an annualised rate of 1.8 per cent in the first half of 1997, compared with treasury projections of 3.5 per cent growth for the year, the Central Bureau of Statistics said yesterday.

In the second quarter GDP slowed to an annualised rate of 1.6 per cent. GDP rose 4.4 per cent in 1996. Analysts expect GDP growth to rise in the second half of the year. "We believe we've seen the worst part of the slowdown, and expect growth to reach between 2 and 2.5 per cent for the year," said an analyst at Ilanot-Batucha Securities in Tel Aviv.

Last week, the Israeli cabinet approved a framework for the 1998 budget and economic reforms aimed at liberalising the economy and reviving growth next year. But yesterday, the Histadrut, Israel's powerful trade union federation, gave a hostile response to the plan and is considering calling a general strike in an attempt to thwart it. *Avi Machlis, Jerusalem*

■ SEPARATIST VIOLENCE

Assam rebels demand talks

Rebels in India's north-eastern state of Assam have threatened to add to a toll of at least 30 killed in separatist violence in the past week unless the Delhi government opens talks over their demands for an independent homeland.

Police in Assam said the Bodo Liberation Tigers' Force, a group seeking their own tribal homeland in Assam, were behind the shooting of 13 people in attacks on two villages in the state on Friday night and Saturday.

The shootings followed bombings, arson attacks and shootings last week as Bodo and other separatist groups waged a concerted protest across the north-eastern states to coincide with India's 50th anniversary celebrations. *Mark Nicholson, New Delhi*

■ CARICOM

Cuba denounces US bill

The Cuban government has denounced as "political terrorism" a bill proposed by a group of conservative US legislators which would penalise Caribbean nations if they supported Cuba's membership of the Caribbean Community (Caricom).

The bill would withhold US assistance to Caribbean basin countries backing Cuban entry to either Caricom or the Central American Common Market (CACM). It would also prohibit tariff concessions to those Caribbean basin countries which negotiated a free trade agreement with Cuba.

Caricom, which recently admitted Haiti as a member, is considering a request from Cuba to negotiate a free trade treaty, which could herald an eventual Cuban bid for membership of the community. *Pascal Fletcher, Havana*

■ STREET PARADE

Ravers rule in Zurich

Zurich, normally the staid centre of Swiss banking, traded suits and ties for wild and scanty costumes as up to 300,000 people descended on the city at the weekend for its annual techno music Street Parade.

Techno fans, popularly known as ravers, poured in from around Europe to don bizarre costumes, many of which were suitably scaled down for the summer heat. Some participants wore only bright body paint and bangles, while others danced to the booming sounds in leather harnesses, spiky collars and feather boas.

"I saw people who I thought would never go in costume at the street parade, people who normally wear suits and ties," one organiser said. *Reuter, Zurich*

Call to reinstate Bosnia elections

By Guy Dinmore in Sarajevo

The international community insisted yesterday that the Serb-controlled half of Bosnia should hold early elections to resolve the political crisis that threatens to divide the impoverished territory in half.

The office of the civilian High Representative in Sarajevo condemned a ruling by the Bosnian Serb constitutional court that overturned a decision last month by Biljana Plavsic, the president, to dissolve parliament and hold elections on October 12. The court took its decision under the influence of the hardline nationalist and war crimes suspect, Radovan Karadzic. Western officials were investigating reports that one of the court's seven judges, Jovo Rosic, was badly beaten by Mr Karadzic's loyalists on Thursday, the eve of the court's ruling in Pale, near Sarajevo.

Serb journalists said Mr Rosic was under armed guard in a hospital in Banja Luka, Mrs Plavsic's power base in north-west Bosnia, after fleeing from Pale.

The rift between Mrs Plavsic and her predecessor, Mr Karadzic, deepened when two ministers resigned from the Bosnian Serb government. Djuradj Banjac and Ostoja Kremenovic said they could no longer work under the ruling Serb Democratic party (SDS). Mrs Plavsic has announced plans to set up her own party to challenge Mr Karadzic's SDS in the October polls.

Gerd Wagner, senior deputy High Representative, said new elections under international supervision were the only way forward. "You need pragmatic and responsible representatives in the future if the Republika Srpska is to avoid economic catastrophe," he said.

The international community has thrown its support behind Mrs Plavsic, who is a fervent nationalist but is seen as more supportive of the 1995 US-mediated settlement that ended the war and created a single Bosnian state of two entities, Moslem-Croat and Serb.

The US special envoy to Bosnia, Robert Gelbard, is due in Sarajevo today. The White House said after a meeting betweeo Bill Clinton, the president, and top officials last Friday that it was "very important" that Mr Karadzic be arrested and put on trial by the International War Crimes Tribunal in The Hague.

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UPS adversaries give talks pledge

By Mark Suzman in Washington

Officials at United Parcel Service, the largest parcel carrier in the US, and the striking Teamsters union yesterday pledged to stay at the negotiating table despite four days of largely fruitless talks to try to resolve differences over a new labour contract and pension changes.

In an apparent sign that the two-week strike could drag on for some time, Ron Carey, Teamsters president, confirmed the union was planning a series of rallies and marches in US cities on Thursday to bolster morale and encourage public support.

The two sides resumed discussions with a federal mediator late last week.

In a television interview, Mr Carey said there had been "some movement" in the negotiations, and insisted there was no need for a government-imposed cooling off period.

"Obviously we are at the table, we are talking about the issues and that to me is progress," he said. "We are trying to see if we can find some areas of agreement and the talks are moving along."

In a separate interview, James Kelly, UPS chief executive, said he was encouraged that talks were continuing.

But he warned that the strike had lost UPS some business permanently, and said the company had been supplying information about the strike's effects to the White House to try to persuade Bill Clinton, the president, to intervene.

"Our customers have been devastated in many cases," he said. "Unfortunately a lot of that business has gone away."

UPS estimates it has lost more than $600m as a result of the strike by 185,000 workers, and Mr Kelly has warned that more than 15,000 jobs are at risk.

Mr Clinton can halt the strike under the Taft-Hartley Act if he feels it is endangering the national economy or security.

However, the White House has so far resisted calls for intervention and Alexis Herman, US labour secretary, says she is convinced a negotiated solution can be reached.

● OeTV, one of Germany's biggest unions, is considering limited industrial action in support of the Teamsters strike in the US, Graham Bowley writes from Frankfurt.

The public sector union is preparing "a symbolic act" at UPS locations in Germany which could affect up to 20,000 workers.

"We emphatically support our striking US colleagues at UPS and are preparing further measures to support them," said Wolfgang Warburg, a union official.

The union said it was not contemplating an all-out strike but would consider measures such as extending breaks.

Ameritech calls on regulator to map out the road ahead

Kelly Welsh, legal counsel for the Chicago-based Ameritech telephone company, has one request for the Federal Communications Commission. When the regulator hands down its long-awaited decision tomorrow on whether Ameritech can enter Michigan's $2.3bn long-distance market, it should make clear its reasoning and regulatory demands – even if the immediate answer is No.

"If we get a roadmap, that's great," he says. "But if it's a chart for an unmanned mission to Pluto, that's another problem."

The FCC's ruling, expected to exceed 100 pages, is being billed as a landmark in the fast-evolving US telecoms scene.

Earlier this year Ameritech, provider of local services in five Midwest states, became the first local telephone company to seek entry into the long-distance market under the 1996 Telecommunications Act.

Others have either followed or eyed up other states. Ameritech has made a separate filing to enter the Illinois market, but its Michigan pitch remains the most advanced proposition in the regulatory pipeline.

So what the FCC says tomorrow could determine the way ahead for the industry.

The big sticking point is the Telecommunications Act's requirement that local carriers open their existing markets to competition before they are allowed to compete for long-distance business.

In determining whether this has been achieved, regulators must not look at the number of companies actually jostling for business but at the steps taken by the aspirant local carrier to ensure that entry is possible – for example, its compliance with a 14-point checklist.

It is here that the problems start. Ameritech claims to have met required standards in Michigan. The fact that consumers have minimal choice of carrier in large areas of the state is because potential entrants, such as the long-distance carriers, are "cherry-picking" lucrative customers, it says.

Not so, retort the long-distance carriers. "We've been very clear and consistent – Ameritech does not meet the 14-point checklist," says MCI, the Washington-based carrier in the throes of a merger with British Telecommunications, upon which the FCC is expected to rule soon.

Amid the furore, more objective views have been expressed by the state-based Michigan Public Services Commission and the federal department of justice. In June the PSC said Ameritech met only 11 of the 14 conditions – citing performance standards, accuracy of emergency call records and shared transport as particular areas of weakness. It added, however, that these problems might be remedied before August.

Later that month the Justice Department worried about unbundled switching and local transport, as well as the adequacy of Ameritech's systems for providing resale services and its handling of interconnection problems. Calls between an Ameritech customer and a competitor's customer, it noted, tended to be blocked more frequently than calls between one Ameritech customer to another.

Ameritech claims these assessments are either based on out-dated information or represent a difference of view on how competitive conditions should be measured. "I think areas where issues have been raised, like operational support systems, are concerns which are not material. They're issues about different kinds of measurements that we have – which is reaching a level of overly detailed, hyper-regulatory concern," says Mr Welsh.

Few are laying odds on the FCC approving Ameritech's application this time round. Reed Hundt, FCC chairman, complained in a speech last week that there was "scarcely any competition" in local markets generally. He noted that in the specific case of Ameritech's Michigan effort, neither state regulators nor the Department of Justice agreed the market was open.

Mr Welsh has a warning. "One of the points the FCC, and others, have made is that long-distance entry is a carrot for Bells [local carriers] to open up the local markets. If [the ruling] is not a reasonable roadmap, but plans for a mission to the outer galaxy, that sends a message to the industry that there is no carrot there."

But would Ameritech really step back from its much-vaunted push into the long-distance market? After all, in its five core states alone the market is worth $9bn annually. "It's impossible. It's impossible. So we'll see what their requirements are," Mr Welsh says.

Nikki Tait

Ameritech: a long-distance call

- Feb 1993: Ameritech restructures operations: says it is seeking ability to provide long-distance services, in return for opening local markets.
- Feb 1996: The US Telecommunications Act is passed, aimed at allowing local companies (or Baby Bells) and long distance carriers to enter each other's markets.
- Jan 1997: Ameritech applies to provide long distance services in Michigan, the first such Baby Bell application.
- Feb 1997: Ameritech withdraws, after FCC warning that its interconnection agreement with AT&T won't allow it to meet the 14-point checklist.
- May 1997: Ameritech refiles for long-distance permission in Michigan.
- June 1997: Michigan Public Service Board says Ameritech meets only 11 of 14 checklist items. Department of Justice also subsequently expresses reservations.
- July 1997: Ameritech files for long distance permission in Illinois.
- Aug 19, 1997: FCC to rule on Ameritech's Michigan application.

Reed Hundt
FCC chairman

Greeks fall prey to loan sharks

By Kerin Hope in Athens

The discovery by Greece's new financial police force of an illegal loan operation run from an Athens nightclub has highlighted the cash-flow problems of small Greek businesses and self-employed professionals.

When officers from Sdoe, the financial police, raided the La Mamounia nightclub earlier this month they found documents revealing that more than 400 doctors, lawyers and self-employed businessmen had borrowed amounts ranging from Dr1m to Dr40m ($3,400-$138,000) at monthly interest rates of about 10 per cent.

"There are hundreds of loan sharks around Athens who exploit the difficulties faced by businessmen in their neighbourhood when money is tight," said an official from the Greek Confederation of Small Business Associations.

"Payments are late, cheques bounce and people desperately need cash to keep going. But the banks are reluctant to lend."

Self-employed professionals are also at risk. Doctors spend heavily on buying or leasing medical equipment. Architects and civil engineers run into problems because the mortgage lending market is still undeveloped and their clients rely on funding provided by their families.

The loan sharks at La Mamounia appeared to have made loans totalling more than Dr2bn to 1,000 clients in the past five years.

The nightclubs along the seaside strip near Athens airport, patronised by wealthy Greeks and an increasing number of Russian and east European high-rollers, have become a target for the financial police as they pull in large amounts of cash earned in the flourishing black economy.

Sdoe, with powers to seize company books and make arrests, was launched in April as part of the Socialist government's drive to crack down on tax evasion. The force says it has already raised Dr14.6bn in fines imposed on more than 5,000 businesses.

Intensifying competition among private Greek banks, fuelled by shrinking margins on corporate lending, is starting to make credit more easily available.

"The trend is for banks to increase their assets by lending to small businesses that have difficulty raising funds elsewhere. The trouble is that smaller banks don't have big enough networks to reach many of the people who are at risk from loan sharks," said a Greek banker.

Czech Roma seek refuge in Canada

By Joe Cook in Prague

Thousands of Czech Roma, or gypsies, are selling possessions to raise money for air fares to Canada in the belief that they will be able to secure refugee status as victims of racism.

As many as 15,000 people from the industrial region of Ostrava in the east are making plans to go to Canada, according to local Roma organisations and Canadian diplomats in Prague. Visa-free travel between Canada and the Czech Republic was introduced last year. All direct flights from Prague to Canada are fully booked until the end of October, and the Canadian embassy in Prague is receiving 300 telephone calls a day from would-be emigrants.

However, the vast majority of Roma who make it to Canada may have difficulty convincing the Canadian Immigration and Refugee Board that they have a "well-founded fear of persecution". That means they will be deported back to the Czech Republic – where they will join the back of the housing queue.

Václav Klaus, the Czech prime minister, described the situation as "very dangerous". He has agreed to establish a permanent secretariat to co-ordinate Roma issues at government level.

The exodus was triggered after a recent television programme depicted Roma families living in Canada. It suggested that Roma could escape poverty and racism by moving overseas. Lina Janackova, the mayor of Ostrava-Marianske Hory, said her municipality would happily pay the fare for Roma wishing to leave the country.

Her remark was condemned as "racist" by the office of Václav Havel, the president. The Czech branch of the Helsinki Committee, a human rights organisation, said: "State representatives who make public remarks supporting segregation and discrimination are committing the criminal offence of spreading racial hatred."

The affair has highlighted the plight of the Czech Republic's 300,000 Roma, who account for 3 per cent of the population. A recent study by the government's Council on Nationalities found that 70 per cent of Roma are unemployed. The national unemployment rate is 4 per cent. Ondrej Gina, a member of the Council on Nationalities, says that 28 Roma have been killed by racist thugs since communism collapsed in 1989.

Miroslav Sladek, the leader of the Republican party, has said that Roma "should be held criminally responsible from birth". He and two other Republican deputies were recently stripped of parliamentary immunity to face charges of inciting racial hatred.

A Canadian diplomat in Prague said that the reintroduction of visa requirements for Czech citizens was "one of the options available to us".

American companies suffer from post-Tiananmen sanctions as trade gap widens

China urges end to high-tech ban

By James Harding in Shanghai

China yesterday urged the US to lift sanctions on exports of US nuclear power equipment, identifying one of the more sensitive issues likely to be raised when President Jiang Zemin meets President Bill Clinton later this year.

The removal of US sanctions on high technology products would benefit American companies barred from serving China's fast-growing market and reduce the rising trade deficit between the two countries, say Beijing officials.

The ban on US exports of certain high-tech goods, imposed after the 1989 massacre of students in Tiananmen Square, had opened the Chinese market to rival equipment suppliers, according to a front-page article in the China Business Weekly, the official government newspaper.

Chinese government statistics show a $10.5bn trade surplus with the US, while US figures indicate the surplus will reach $40bn by the end of the year.

Zhou Shijian, a government expert on Sino-US trade relations, was quoted yesterday saying: "If the US had removed the sanctions on high technology exports, which are worth several billion each year, it is thus questionable who would be enjoying the surplus."

Since 1989, China has purchased or contracted approximately $8bn worth of nuclear power equipment from France, $3bn from Canada and $4bn from Russia, according to yesterday's report. "The US actions pushed the huge Chinese market to its competitors," Mr Zhou explained.

He "urged the US authorities to take actions to free nuclear power exports to China, which plans to build several plants before 2000."

Mr Jiang is due to meet Mr Clinton in late October, the first Sino-US summit at the White House since 1989 and an opportunity for both men to proclaim substantial improvement in the often difficult relationship.

Beijing has identified Westinghouse, the US company, as one of the chief victims of the sanctions on nuclear machinery, arguing that it has been forced to withdraw from bidding for lucrative nuclear power construction projects.

Mr Zhou cited Westinghouse as a "very strong competitor in bidding for China's nuclear power construction," but added that while "US companies are competitive in both technology and price, they lack these opportunities".

Washington officials have said they are considering the issue, but have signalled that they are not immediately ready to lift the ban, a move which would meet strong resistance from US human rights groups. For US companies to sell nuclear equipment to China, the White House would have to certify a 1985 nuclear co-operation agreement designed to halt the proliferation of nuclear weapons to non-weapons countries.

China also cited sanctions on other high-tech products, such as electronics, digitally controlled machines and electronic equipment, which it would like to see lifted. It argued that the US ban on military equipment or products for other "sensitive sectors" was actually restricting civilian products from entering China.

■ China's inflation rate could be as low as 2 per cent this year, well below the government's target of 6 per cent, according to the chief economist of the State Statistical Bureau. Retail prices edged up 1.6 per cent between January and July of this year, as inflation has hit its lowest levels since the mid-1980s.

Thousands mourn top Pakistani singer

Thousands of mourners gathered yesterday at the home of Nusrat Fateh Ali Khan, Pakistan's great singer, who died of a heart attack at London's Cromwell hospital on Saturday at the age of 49. Wailing in devotion, the mourners moved from Mr Khan's home in Lahore to his birthplace in Faisalabad two hours away, where his body was laid to rest.

In Pakistan, the chubby performer will best be remembered for giving fresh life to the qawali, the music of an ancient Islamic movement called Sufism, by fusing it with western rhythms and tunes.

In the 1990s, his audience broadened to include western artists. One of his western admirers was Peter Gabriel, who used Khan's piercing voice in his composition for the controversial movie, *The Last Temptation of Christ*.

Other western movie performances included *Natural Born Killers* and *Dead Man Walking*.

Khan's concerts earned him admirers worldwide. In Japan, concert-goers usually took off their shoes as a mark of respect.

Even in neighbouring India, Pakistan's arch-rival, Khan became known as the most eminent cultural ambassador from across the border. Although he was condemned by the conservative Shiv sena group and threatened with a performance ban in India, Khan's CDs, cassettes and videos became a hit there.

Some commentators criticised Khan for diluting the *qawali*, a traditional art form. He responded to his critics in a recent interview with The Herald, a Pakistani magazine, saying: "Attitudes have changed, you can no longer find those audiences, those connoisseurs [of the past]. Today, people come to a *qawoli* to have a good time. During the performance, they talk of business, swap anecdotes. Previously it was considered a form of worship.

"The new generation had not been introduced to the *qawali*. My idea was that this is such a vibrant art form, it has such a tremendous beat, such power, that the new generation should be made aware of it."

Young Pakistanis, who are among Khan's most devoted fans, never let him down. Cars bearing stickers with the inscription *"Ali do malang"*, a verse from one of his songs, quickly became trendy on the streets of Pakistan after his first four *qawali* songs were released eight years ago.

Khawaja Parvez, a leading Pakistani composer who composed those songs, yesterday described Khan as "an unrivalled performer whose biggest achievement was to strike a balance between the old and the new styles, and to create a refreshing product."

Khan's sudden and spectacular success was quickly followed by popular stories such as one suggesting the musician had been blessed by a holy man who promised eternity for his talent.

Khan's growing popularity was further helped by the offer of a year-long stint as a visiting professor of music at the University of Washington in Seattle, the first such opportunity for a Pakistani musician. In recognition of his performance, Khan won prestigious awards in France and Japan, in addition to being decorated at home.

Nusrat Fateh Ali Khan: popular with young AP

Khan's one last wish remained unfulfilled. He wanted to establish a music academy in Pakistan, a country with virtually no opportunities for formal coaching.

He has also left no visible successor. Farrukh, his younger brother, and Rahat, a nephew, who both performed among his team of instrumentalists have yet to show their talent. Khan's 12-year-old daughter, Nida, his only child, is still too young, and there is virtually no tradition of women performers in *qawali*.

Farhan Bokhari

Investor funds target growth in Lebanon

By Roula Khalaf in London

Regent Pacific of Hong Kong is preparing to raise $50m to invest in listed Lebanese equities, according to Julian Mayo, company director for corporate finance.

The Regent Pacific fund, if successful, would be the second Lebanon fund to emerge this summer. Last week, Lebanon Invest, a Beirut investment bank, and SBC Warburg raised more than the $50m they were seeking in a closed-end investment fund to invest in private Lebanese equities. The Lebanon Holdings fund is to be listed in Luxembourg and Beirut and will be managed by London-based Blakeney Management.

Regent Pacific, an emerging market specialist, will be raising the funds in September to invest mainly in listed equities. Although some stocks have doubled in price since the beginning of this year, Beirut's stock market, opened in 1996, so far has been a disappointment to those who believed it would be Lebanon's ticket to reasserting itself as a regional financial market.

The market, with about $4bn in capitalisation, has only eight companies listed, with four more trading over the counter. At least half the capitalisation is taken up by Solidere, the property company developing Beirut's war-ravaged historical centre.

The Lebanon Holdings fund is following a different approach. It will invest in private companies with a view to taking them public on the Beirut stock exchange within two to three years. According to Khaled Abdel Majeed of Blakeney Management, the idea behind the fund is to provide development capital to companies that have under-invested during Lebanon's 17 years of civil war and need to modernise their plant and equipment.

The fund will at first focus on the banking sector. Lebanon's 79 banks are under pressure to improve capital ratios, which is already leading to consolidation.

Lebanon is an adventurous investment choice, having just emerged from civil war. But appetite for Lebanese securities – bonds in particular – has been on the rise.

The Lebanese government has raised more than $1bn in three eurobond issues since 1994. In the past year, Lebanese banks have become regular issuers of bonds on international capital markets. Emboldened by its placement success, the government is now planning to raise another $1bn worth of bonds over the next three years, with maturities running up to 30 years.

Lebanon's future is closely tied to that of the faltering peace process. Domestically, the government is besieged by rising discontent over a $60bn reconstruction plan seen to be widening income disparities.

Gross domestic product growth has been sluggish in the last two years, following the 7 per cent average recorded in 1992-95. In the first quarter of this year, it fell below last year's rate of only 4 per cent. Domestic debt is rising; it doubled between 1994 to 1996. The government has been running large public deficits, which consistently overrun targets. In the first quarter of this year, the deficit, as a percentage of expenditures (GDP is still not accurately calculated), was at nearly 60 per cent, compared to a 38 per cent target.

Mr Mayo does not minimise the political risk, but believes the country's finances are not as dire as they seem. "Our philosophy is that we believe that when there's a major event which causes change – such as the end of the war – the existence of that event gives rise to activity," he said. "And Lebanon is going through a peculiar situation, it is rebuilding and one would expect the country to run a budget deficit and accumulate debt in fairly sizeable amounts."

Israeli sanctions prompt boycott threat

By Avi Machlis in Jerusalem

Senior Palestinian officials were set to convene last night to decide on steps, including a boycott of Israeli goods, aimed at pressuring Israel into lifting sanctions imposed after a suicide bombing nearly three weeks ago.

However, experts said the move was political, and a Palestinian boycott was unlikely to change Israel's stance, since the cash-strapped Palestinian economy is highly dependent on imports from the Jewish State.

Maher el-Masri, Palestinian minister of trade, said measures under discussion included a "selective" boycott of Israel goods into the West Bank and Gaza Strip. He said a panel would "present recommendations to the Palestinian leadership on a strategy for the coming period, considering the present siege imposed by the Israeli government".

Mr el-Masri said the closures cost the Palestinian economy $9m a day. He added that Palestinians were dismayed at the Israeli business sector for not pressing the government to ease sanctions. "We have only heard negative voices," he said. "It is unusual from the Israeli business community, which used to take a positive stand on economic relations with the Palestinians."

Gershon Baskin, Israeli director of the Israel Palestine Centre for Research and Information, a joint Israeli-Palestinian think tank, said the Israeli Palestinian move represented "political escalation".

"The boycott has more to do with politics than economics," he said. "The Palestinian economy cannot survive without having access to imports from Israel."

In addition, the Israeli army said most Israeli goods were already barred from entry into the West Bank and Gaza Strip under terms the closure.

David Bar-Illan, chief spokesman for Benjamin Netanyahu, Israel's prime minister, said a Palestinian boycott would not "make a dent in the Israeli economy".

AP adds from Amman: The Jordanian government opened talks with opposition groups yesterday to try to persuade them to take part in the parliament elections on November 4.

Abdul-Majid Thneibat, the spiritual guide of the fundamentalist Moslem Brotherhood, said the talks with Abdullah Nsour, deputy prime minister, focused on "the mechanism of the dialogue". He added that there were "positive signs" from the government but that more meetings were needed.

In addition to the Brotherhood, which has called for an elections boycott, the meeting was attended by representatives of the Brotherhood's political arm, the Islamic Action Front, and the Future party, a small, pan-Arab party that has also said it will boycott the polls.

The Islamic Front has 15 seats in the parliament, making it the largest opposition group in the legislature. The Future party has one.

Three other left-leaning opposition groups also have threatened a boycott. They have no members in the current parliament.

A chorus for statehood, Page 12

Hashimoto plan threatens bureaucrats' power bases

By Gwen Robinson in Tokyo

A plan to restructure Japan's unwieldy bureaucracy and abolish such influential bodies as the Ministry of International Trade and Industry (Miti) has pitted the administration of Ryutaro Hashimoto, the prime minister, against the country's bureaucratic elite.

The plan is the latest attempt by Mr Hashimoto to extend his "big bang" reformist push to administrative matters. It is also widely seen as an attempt to gain more control for politicians over an excessively powerful bureaucracy, which has traditionally decided all important policy matters and defeated numerous past administrations on issues ranging from taxes to diplomacy.

Mr Hashimoto heads the administrative reform council, a group of politicians, academics and government advisers which has proposed cutting the number of central government bodies to 15 from 21.

Last week, a controversial detailed draft plan of how this would be done was presented to the council by a subcommittee. Under a timetable announced earlier, Mr Hashimoto's council must decide by the end of August whether to adopt the subcommittee's recommendations and present an interim report.

Among the draft plan's main proposals, Miti, regarded as the architect of Japan's postwar growth and the main body directing international trade policy and domestic industry, would be absorbed into a new Ministry of Economy and Industry. The new ministry would also take over most of the Finance Ministry's functions, under the plan's call for the separation of fiscal and financial management functions.

The Finance Ministry, which currently enjoys pervasive power over the country's fiscal policy, state funds and vast financial industry, would be reduced to dealing with practicalities including currency control and regulation of financial institutions.

The plan proposes that another new ministry called the Food and Energy Ministry be created to combine some of Miti's functions with those of the current Agriculture, Forestry and Fisheries Ministry.

Another proposal that has provoked uproar in many circles is the plan to merge transport, postal and telecommunications functions into a mega-ministry of transport and communications.

The highly sensitive question of what would become of the postal savings and insurance – the country's largest public savings schemes – was not mentioned in the plan. The schemes are now under the jurisdiction of the Posts and Telecommunications Ministry, which has irked Japan's leading commercial banks – among other financial circles. The country's main banking association recently called for the privatisation of these and other functions of the Post and Telecommunications Ministry.

The draft plan, however, suggests only that the Posts and Telecommunications Ministry be merged with the Transport Ministry, and that their information and transport policy-management functions be transferred to yet another new ministry called the National Land Development Ministry.

One of the few proposals to have already won broad acceptance in earlier discussions between members of the council and the subcommittee is the proposal to upgrade the Defence Agency into a full-fledged ministry. But in a dissenting view submitted with the main draft plan, the subcommittee recommended leaving the agency unchanged, as "it would not be wise to give other countries the impression Japan is strengthening its military capability". The agency is currently regarded as a junior ministry and while it supervises military affairs, it lacks real power over security policy matters.

The plan calls for streamlining the numerous agencies and ministries handling welfare and employment issues and merging the functions into a new and incongruously named People's Life Ministry. Civic groups and other private labour and welfare bodies have already expressed concern that the combination of so many important functions under one ministry would undermine their importance.

A weeping Kenyan woman is comforted as the body of her husband, killed by unidentified attackers in Mombasa on Saturday night, is covered up. About 100 roadside kiosks and dozens of houses were burnt down around the Kenyan port yesterday after five people were killed overnight by the attackers, Reuter reports from Mombasa. The government sent in the army to back police and paramilitary units battling to end five days of violence in the area, having earlier withdrawn the soldiers. Thirty-one people have died in the fighting.

Peters: aggressive response

Peters' refusal to apologise rocks NZ coalition

By Terry Hall in Wellington

Damning criticism of Winston Peters, New Zealand's treasurer, by the so called "winebox" commission of inquiry into corporate tax avoidance – followed by his refusal to apologise or accept blame – has increased speculation that the ruling coalition will fall apart before the next general election.

Many National MPs – including Jim Bolger, prime minister – are clearly distressed at the aggressive way Mr Peters responded on Friday. The report into the winebox scandal – stolen company documents were placed in a winebox – concluded there was no evidence of tax fraud as claimed by Mr Peters.

The commissioner, Sir Ronald Davison, a former Chief Justice, said Mr Peters had produced no evidence of unlawful conduct, impropriety, or incompetence by senior civil servants and that accusations against leading companies including Brierley Investments and Fay, Richwhite were "false and completely unjustified".

There have been widespread calls for Mr Peters to resign as treasurer, as it is believed that his criticism of leading business figures has the capacity to damage the government severely.

Referring to Mr Peters' accusations, all made under parliamentary privilege, Sir Ronald said: "Winston Peters took the attitude that he had made the allegations and the persons concerned were guilty."

Mr Peters responded by saying the commission's report was wrong, and that he would seek a judicial review. His responses, and lack of contrition, have been widely criticised by fellow MPs, including National MPs, while his own NZ First MPs have also distanced themselves on the issue.

Mr Peters' anger at the commission's findings is obvious. Since his appointment as Treasurer he has done nothing to hinder the National party's economic reform programme and has actively promoted his own rightwing policies to force the lower-paid and underprivileged towards self-help ways to improve their situations.

Mr Peters' difficulties stem from a period four years ago when he had broken with the National party and was seeking publicity to form his own new party.

National party strategists say there is no need for Mr Peters to resign as treasurer, as the public face of the ministry continues to be that of his colleague, Bill Birch, who has been minister of finance for the past four years and is respected internationally. In spite of this the issue is obviously worrying the government. The latest opinion polls show that its popularity is falling fast, largely because of a series of scandals involving NZ First MPs.

Many of the difficulties centre on the different constituencies of the two coalition parties. The National party has traditionally been backed by the business and farming sector, while Mr Peters' party, NZ First, draws much of its support from underprivileged Maori voters and the aged.

A poll last week showed that National, still the biggest party in parliament, retains 38 per cent support, while NZ First has dropped from 17 to 3 per cent, suggesting it would lose all its seats if an election was held in the near future.

Most worryingly, the poll showed 77 per cent disapproval for the coalition government. National party strategists are known to be seeking to distance themselves from their troublesome partner, and are reported to be seeking to woo opposition MPs to join the government in case NZ First "self destructs"

Mr Bolger – whose own standing appears to have been damaged by his recent close links with Mr Peters – also appears to be showing signs that he does not believe the coalition will survive.

He pointedly apologised to the civil servants who had been cleared in the winebox inquiry, and sat elsewhere in parliament when Mr Peters refused to follow his example.

The next big test for the coalition may come this week. A new minister is due to be appointed to replace Neil Kirton, a junior health minister who was sacked by Mr Peters a week ago. There is talk this job may be given to a National rather than an NZ First backbencher which would upset Mr Peters' parliamentary supporters. There are also considerable concerns about how long Mr Kirton will continue to support the coalition government, which has a one-seat majority.

Windfall payments set to boost imports

By Robert Chnte, Economics Editor

Beneficiaries of mutually owned lending institutions' windfall payments are likely to spend almost a quarter of the £35bn ($57.05bn) they receive this year, but this should attract imports rather than fuel inflatinn.

The conclusion comes from a survey of more than 900 windfall recipients commissioned by Robert Fleming Securities, the UK-based broker, and Mintel International, the market research company.

The Bank of England, the UK's central bank, said last week that it was commissioning a similar exercise.

The survey suggests that people will spend about £8.2bn from their windfalls, 23.2 per cent of the expected total. This includes £2.1bn likely to be spent on holidays and a further £2.1bn on furniture, carpets and home improvements. Household electrical items and motor vehicles are each expected to absorb about £800m.

The proportion of windfall payments that people say they have spent, or intend to spend, is at the upper end of previous estimates. A recent opinion poll carried out by the market research group Mori suggested that between 10 and 25 per cent would be spent.

But Peter Warburton, economic adviser at Robert Fleming, argues that the spending from windfalls does not mean that further interest-rate increases are needed to keep inflation in line with the government's target. "Rather than stoking up an inflationary problem, it appears that the additional burden placed on domestic output is relatively minor," he said.

The impact on inflation will be limited because almost 40 per cent of the windfall expenditure will be devoted to imported goods and services, twice the proportion for consumer spending as a whole.

The import content of spending is about 74 per cent for holidays and 43 per cent for household electrical items, although it is only 19 per cent for furnishings and home improvements. Mr Warburton estimated this would add £3bn to the current account deficit this year.

In aggregate, windfall-financed expenditure will add 1.7 per cent to consumer spending this year in cash terms, and 1.3 per cent after adjusting for inflation.

This is slightly more than the 1 per cent addition to consumer spending expected by the Bank of England.

Only a few respondents to the survey indicated that the windfalls would have a permanent impact on their enthusiasm for spending.

"The surge in consumer confidence, which has occurred during the last six months as these windfall payments have been eagerly awaited, is therefore likely to ba reversed quite rapidly this autumn," said Mr Warburton.

MoD shortlists six bidders to save Britannia

By George Parker, Political Correspondent

Defence chiefs have compiled a shortlist of six bidders to turn the royal yacht Britannia into a tourist attraction and conference centre, days after the government said it wanted to retain the vessel for the royal family.

The decision to press ahead with plans to decommission the yacht will be seen as a rebuff to Peter Mandelson, minister without portfolio, who said earlier this month he hoped Britannia's life could be extended by 20 to 30 years.

Mr Mandelson's intervention infuriated defence officials, who argue that running costs for the 43-year-old vessel would run to millions of pounds a year even if she has a £50m refit.

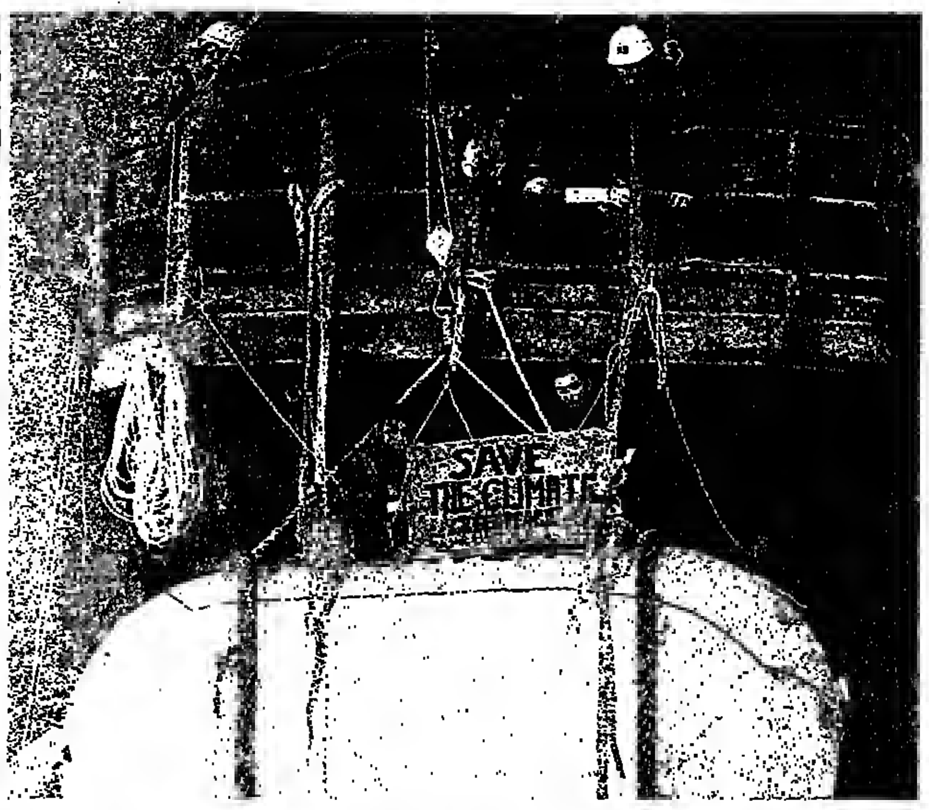
A few days after Mr Mandelson's comments, the Ministry of Defence intensified its search for an alternative use for Britannia. The ministry wants to use the money raised from the sale to help buy a *new yacht*.

Chris Verey, head of the Navy's secretariat, wrote to interested parties asking for more information on how a decommissioned yacht might be found "a suitably prestigious use in the public interest of the UK". He said the MoD had received 21 proposals, nearly all envisaging a mix of visitor attractions and conference/banqueting use, but the list had been narrowed down to six unidentified bidders.

Stressing the government was keeping its options open, and there was no presumption the yacht would be preserved, he said: "Depending on the information provided, it is hoped that a decision on Britannia can be taken before she is decommissioned in December."

The MoD's enthusiasm for decommissioning the yacht contrasts with the backing given by Mr Mandelson on August 3 to a privately funded refit. "Ministers are working very energetically in trying to devise a way in which we can both keep the yacht and refurbish it properly so that it is good for the royal family and great for Britain too, but using private finance on a lease-back arrangement," he said.

The government's drive to encourage more public-private *projects will be given a* boost today with the arrival of Adrian Montague, former co-head of global project finance at Dresdner Kleinwort Benson, at the Treasury to head the new private finance taskforce.



Greenpeace's occupation of a mobile oil rig in the north Atlantic 60 miles west of Shetland ended yesterday after nine days, with the pressure group claiming thet four of its members had been arrested for breach of the peace, *Michael Peel writes.*

Protesters boarded the Stena Dee in an attempt to stop it reaching British Petroleum's Foinaven oil field, where the rig was chartered to work.

Greenpeace said police on board the rig yesterday arrested two climbers who had been occupying a walkway just below the surface of the platform and two other activists who had been living since last Tuesday in a survival capsule attached to one of the rig's legs.

Greenpeace had blocked the rig as part of a campaign against oil exploration in a drive to discourage use of fossil fuels which lead to climate change.

Shake-up for Daihatsu sales

By Haig Simonian

Japanese-style full-service car retailing has moved a step closer in Britain with the formation of a London sales team by Daihatsu, one of *Japan's leading car-makers.*

Unlike a traditional Japanese car retailer, where customers receive direct service at home from a dealer-based sales team, City Daihatsu, the group's new UK retail operation, has no premises.

Requests for test drives, information or servicing are handled by a team of "consultants" who visit customers at their home or office. Information on prices, model *availability and extras is* held in a portable computer, as are trade-in values for a clients' existing vehicles. After the sale, the new car is delivered directly to the customer's home, from where it is collected for servicing.

The venture, which is being set up jointly with Inchcape, the trading group which imports Daihatsu vehicles into Britain, is a further step in the gradual move away from traditional *car retailing.*

The shift started with Daewoo, the aggressive South Korean brand, which chose not to establish a traditional dealer-based network in favour of direct sales and sub-contracted servicing.

Daihatsu said that its venture was less controversial than Daewoo's and had the full backing of existing dealers.

Although owned by Inchcape, City Daihatsu will *operate* as a normal dealership and receive no special treatment, according to the company. It said the reason for the move was to avoid the expense of creating new dealerships in central London.

UK NEWS DIGEST

Utilities set for pricing appeal

Britain's electricity industry will this week consider appealing to the Monopolies and Mergers Commission to adjudicate in a row between the industry and electricity regulator, Stephen Littlechild, over his plans for retail electricity competition, due to begin next April.

Professor Littlechild is expected to unveil his plans this week in a fifth discussion paper covering the price controls he deems necessary for the industry in the first two years of the competitive market.

A fourth discussion paper he published at the beginning of July caused widespread dismay within the industry and has been the subject of a letter of complaint from the Electricity Association, the industry's lobby, to John Battle, energy minister about the alleged unreasonableness of the regulator's plans.

"There was a very strong feeling among us all that the fourth discussion paper was pitched at a level where there would be nothing left for competition," said the chief executive of one large electricity utility. "If he's not careful and doesn't change tack he could find half the industry will go to the MMC, and you can't be in the MMC and make 1998 happen at the same time." *Simon Holberton*

■ BUILDING MATERIALS

Compak set for US expansion

A UK maker of equipment to produce wood *substitute* aimed at environmentally conscious consumers is planning a large expansion in the US.

Lincolnshire-based Compak is among the world leaders in processing systems to make fibreboard from agricultural waste such as straw or sugar cane residues. The company claims the products can be cost-competitive with conventional fibreboard, such as chipboard, made from wood chippings.

The products from Compak's equipment also avoid the use of formaldehyde – the chemical normally required to bind wood fragments in chipboard and which is increasingly regarded as an environmental hazard.

Compak is forecasting a doubling in annual sales to about £20m by the end of the century, mainly from an increase in exports to the US. *Peter Marsh*

■ ENTERTAINMENT

Music and video sales slow

Music and video sales in the UK rose by just 4 per cent last year due to stiff price competition, says a report published today by Verdict, the retail consultants.

Total UK spending on music and videos reached £2.85bn ($4.64bn) in 1996. The growth rate was the slowest since 1992, and half as fast as in 1995. The music and video market, which accounts for 1.8 per cent of all retail sales, tends to grow faster than the rest of the retail sector.

Pre-recorded video sales rose by just 2.9 per cent in 1996 to £812m, the lowest rate of increase since videos reached the market in the 1980s. The slowdown was due mainly to growing price competition in best-selling videos, and to *the rise of satellite and cable television.* Music sales rose 3.8 per cent to £1.69bn in the year. Sales of blank audio and video tapes jumped 8 per cent to £350m.

Verdict says the most important change in the sector last year was the expansion into music and video by supermarkets. They now account for 11 per cent of music and video sales, up from 3 per cent in 1991. *Simon Kuper*

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Abbey National Treasury Services Gtd FRN 2002 £1657.95
Aon $0.26
Bradford & Bingley Bldg Scty Cllrd FRN 2003 £35.02
Credit Foncier de France 10¼% Gtd Srl Ln 2011/12/13/14 £256.25
Eksportfinans FRN 2003 $26.75
French 1.575p
Halifax Cllrd FRN 2003 £34.71
Halma 1.868p
MBL Fin (Curacao) 6¾% Gtd Bd 2002 $675000.0
Mountview Estates 30p
Nat West Bank Prim Cap FRN Ser B $292.24
Prudential 7⅛% Bd 2005 $71.25
St James Beach Hotels 4p
Scottish Metropolitan Property 1.2p
State Bank of New South Wales 11¾% Bd 2001 A$117.50
Do Ext FRN $292.24
Korea Exchange Bank Sb FRN 2006 $8244.86
M & W 1.65p
Nat West Bank Var Rate Cap Nts 2008 $157.49
Swan (John) 22p
Wyndeham Press 3.2p
Yrityspankki Skop Ser B Und Sb Var Rate Nts $170.90

■ **TOMORROW**
BAA 7.9p
Citicorp $0.525

■ **WEDNESDAY AUGUST 20**
Avco Tst Gtd FRN 2000 £166.36
Bank of Ireland Units Non-Cm Stlg Pf Ser A 49.8689p
Do Units Non-Cm Irish Pd Pf Ser A IR47.4001p
Barclays O'seas Cap 6⅝% Gtd Nts 1997 C$63.75
Caterpillar $0.25
India Fd A 0.3519p
Do B 0.2018p
Royal Bank of Scotland FRN 2005 £82.71
VTech (London Reg) $0.05
Do (Bermuda Reg) $0.05
Wells Fargo $1.30

■ **THURSDAY AUGUST 21**
Alders 3p
Assoc Nursing Services 2.75p
Chase Manhattan Snr FRN 2002 $150.52
Dailywin 4.5p
DBS Mngmnt 12p
European Telecom 1.75p
Paribas French Inv Tst 1.6p
Universal Salvage 3.55p

■ **FRIDAY AUGUST 22**
Allied Colloids 2.51p
Anglian Water 24.3p
BPB 6.75p
BT Fin 6½% Gtd Nts 1997 $65.0
Boots 14.3p
Burtonwood Brewery 5p
Carlton Comms 4.9p
Cassidy Brothers 2.25p
Chloride 0.47p
Do 6% Cm Pf 2.1p
Clayhithe 2.57p
David Glass Associates 3p
Fyffes IR0.5716p
Hartstone 0.32p
Intercare 0.8p
Jones & Shipman 1p
Kleinwort Charter Inv Tst 0.4p
London Int 2.1p
Mitsubishi Tst Fin (Asia) Gtd Fxd/FRN Aug 2001 $481.25
NFC 7¾% Cv Bd 2007 £38.75
Raglan Prop 1.1p
Royal Bank of Canada C$0.39
600 Grp 3.5p
TGI 2.35p
Tex Hldgs 3p
Tokyo-Mitsubishi Int Tranche A Sb FRN 2001 $15550.58
Do Tranche B Sb FRN 1999 $15525.0
United Micro Elec 1¼% Bd 2004 $12.50

■ **SATURDAY AUGUST 23**
Nationwide Bldg Scty 4¼% IL Ln 2024 £3.0778
Treasury 2½% IL 2011 £2.58

■ **SUNDAY AUGUST 24**
Burton 8% Un Ln 1996/2001 £4.0

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Banner Homes, Riverside House, Riverside, Wooburn Green, Bucks, 10.00
MS Int, Doncaster Moat House, Warmsworth, Doncaster, 12.00
***Merrydown,** Horam Village* Hall, Horam, East Sussex, 10.30

BOARD MEETINGS:
Final:
Hydro-Dynamic Products
Interims:
Alliance Tst
Argos
Severfield-Reeve
Taylor Nelson
Torday & Carlisle

■ **TOMORROW**
COMPANY MEETINGS:
Anite, *Chess Building,* Caxton Way, Watford Business Park, Watford, 11.00
China Inv Tst, Knightsbridga House, 197, Knightsbridge, S.W., 10.30

BOARD MEETINGS:
Finals:
Brown & Jackson
Future Integrated
Pifco
Stoves
Interims:
Bailey (Ben)
Emess
Ilion
Parity
Shires Smaller Co's

■ **WEDNESDAY AUGUST 20**
COMPANY MEETINGS:
Avocet Mining, Rubens Hotel, Buckingham Palace *Road, S.W., 11.00*
Elliott (B), Elliott House, Victoria Road, N.W., 12.00
European Telecom, Radisson Edwardian Hotel, 140, Bath Road, Hayes, Middx., 2.00
Investment Trust of ***Investment Trusts,*** Knightsbridge House, 197, Knightsbridge, S.W., 11.00
Novo, 6, Broadgate, E.C., 11.00
Sims Food, 120, Cheapside, E.C., 3.30
TGI, Pinners Hall, 105-108, Old Broad Street, E.C., 11.00

BOARD MEETINGS:
Final:
Armitage
Interims:
BLP
Bodycote
Edinburgh Oil & Gas
Nichols (JN)(Vimto)
Rentokil Initial
Richardsons Westgarth
Weir

■ **THURSDAY AUGUST 21**
COMPANY MEETINGS:
Bulgin (AF), Bypass Road, Barking, Essex, 3.00
Burtonwood Brewery, Rake Hall Hotel, Little Stanney, Chester, 12.00
Inner Workings, 152, Bath Street, Glasgow, 10.00
Jones & Shipman, Leicester Hotel, Leicester, 12.00
TR Technology, 3 Finsbury Ave, E.C. 12.30
Trifast, Trifast House, Bellbrook Park, Uckfield, East Sussex, 12.00

BOARD MEETINGS:
Interims:
CFS
Clarke (T)
Group Tst
Halifax

■ **FRIDAY AUGUST 22**
COMPANY MEETING:
600 Group, Motorway *Trading Estate, Gelders Hall* Road, Shepshed, Loughborough, Leices., 12.00

BOARD MEETING:
Interim:
Braime (TF & JH)

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

THIS WEEK

The people's army marches on

DATELINE

Bonn: The operation to halt the flooding of the Oder has bolstered public support for conscription, writes **Ralph Atkins**

Lance Corporal Sebastian Wagner, 22, a Luftwaffe conscript based at the federal defence ministry at Hardthöhe, is just the sort of chap to make a German general's medals glow. "Having received a lot from the state – benefits and advantages – I think that I should make my contribution," he says.

In a few weeks, L.Cpl Wagner completes his 10-month military service and heads for Hanover to study business management. By then, a remarkable debate over the future of Germany's 135,000-strong conscript force should have abated. The controversy has been remarkable not because of its intensity, but because of the effectiveness with which arguments elsewhere in the Nato defence alliance in favour of smaller, fully-professional forces designed to react swiftly to dangers around the world have been dismissed.

Helmut Kohl, the chancellor – on holiday by the Wolfgangsee in Austria after a wretched summer's bickering over economic reforms – has secured a broad consensus within his governing coalition for retaining a "people's army".

The conscription issue arose because of a decision by the liberal-inclined Free Democratic Party, the junior coalition partner, to poll its members on abolition. Jürgen Möllemann, party chairman in North Rhine Westphalia, argued that the FDP had a chance "to develop its profile as a reform party".

France had recognised the profound change wrought by the end of the cold war and was moving towards abolition, Mr Möllemann pointed out, while the concept of a professional force "has long been proved" in the US and the UK. "We should follow these good examples," he said.

But Mr Kohl, a self-declared "passionate supporter" of conscription, had fortune on his side. The debate surfaced just as Germany battled against once-in-a-1,000-year rains which threatened to devastate large areas along the river Oder on its Polish border. Of the 30,000 soldiers deployed, more than half were conscripts who worked long shifts filling sandbags to save crumbling dykes. It was one of Germany's largest and most impressive military operations for more than 30 years.

Mr Kohl says the Oder defence showed the army "is our son" and had fulfilled the aims of its founding fathers to be a military force "that represents the people completely". Among those nodding assent was Klaus Kinkel, Germany's foreign minister and former FDP leader who last week confidently predicted his party's poll would find no majority for abolition.

The Oder was a cathartic exercise. At just the right time, the conscript army showed it could act as effectively as any fully professional force. It justified continuing faith in a system designed after the second world war deliberately – and for obvious historical reasons – to avoid the creation a military elite, to eschew pomp and ceremony, and to retain strong connections with the population.

"There is a deep-down conviction that democracy and conscription belong together. It was quite a blow when the French did away with the latter," says Professor Michael Stürmer, director of Stiftung Wissenschaft und Politik, the foreign affairs and defence policy institute.

Over the years, the system has become antrenched. Serving young men – there is no female equivalent – are usually based near their homes and often travel back at weekends, creating a decentralised force with strong local links. After their 10-month service, former conscripts receive further training and can be recalled in emergencies, reinforcing the perception of the armed forces as an enhanced civil defence organisation.

The military establishment argues the system gives it a better selection of the "cream of youth". It also means a younger military: the average age is 26, compared with 36 in Belgium. And, as one Hardthöhe officer points ont, "a 26-year-old is quicker at filling sandbags than a 36-year-old".

For those who object, there is a civil alternative, to which little stigma is attached. As a result, the health and social services have an abundant supply of low-cost workers to help in hospitals and other areas.

But the strong support for a conscript army also betrays the concern that Germans still feel about their armed forces serving abroad as professional peace-keepers. While German soldiers have served in Bosnia (though only conscripts who volunteered), the conflict in former Yugoslavia is a clear example of the need not only for highly-trained forces but soldiers aware of the region's complex politics. A conscript army is a cumbersome force requiring, in Germany's case at least, more civilians in administration jobs than conscript soldiers.

Such concerns do not worry L.Cpl Wagner. "I think that, even without the Oder, you can be sensibly deployed, making a contribution for the armed services, or my fatherland."

The Monday Profile · Hugh McColl

NationsBank action man

Hugh McColl, chief executive of NationsBank, is the most feared banker in the US. And be seems to be unhappy about it.

No one has better personified the wave of mergers and acquisitions which have transformed US commercial banking in the last decade than Mr McColl.

When he took over as chairman of the then North Carolina National Bank in 1983, it had $12.8bn (£7.8bn) in assets, and no branches ootside its home state. Innumerable takeovers later, the renamed NationsBank has $240bn in assets, with a retail network which spreads through 16 states from Maryland to New Mexico. It is the fourth largest bank in the US, and it means to grow further.

This was not achieved without some aggressive tactice. Mr McColl, wbo spent two years in the US Marines, accurately portrays his image as "some media caricature of a nail-chewing, grenade-tossing jar-head who drills his troops before every business day".

The media myth that he keeps a grenade on his desk has become such a cliché that Mr McColl now awards crystal grenades to staff for exemplary performances.

Mr McColl says his image is inaccurate, and that the main lessons of his time in the service were to practise "decentralised command" and "to take care of people". "Leaders make sure their troops eat and are bedded down first. They look after their fallen. They practise egalitarian leadership."

So NationsBank's focus is on managing transitions and improving customer service, and it has become an enlightened employer.

A large daycare centre stands just outside the company's imposing 60-storey headquarters in downtown Charlotte, while Mr McColl's curriculum vitae starts with the "Family Champion" title awarded to him in 1993 by Working Mother magazine.

The emphasis is on creating a "model bank". This is to be a "multifaceted delivery system" with fewer confusing product offerings and common software to support cross-selling across a range of delivery platforms, including the telephone, ATMs and personal computers.

This centralised model, eschewing the complex chains and separately incorporated banks used by some of the other large acquiring banks, is intended to make acquisitions easier to digest.

Not that he disavows the military image entirely. "It's true that we are explosive when we go into action. And NationsBank has always had an ambition to build a national franchise. But people miss the long and very involved strategic planning that we go through first."

The last 12 months have seen two big deals, both initially greeted with criticism on Wall Street, which already seem to be paying off. Last August, Mr McColl bought Boatmen'e Bancshares of St Louis for $9.5bn, a price equivalent to 2.6 times its book value.

Since then, several big banking mergers have gone through at higher multiples, and NationsBank has integrated Boatmen's smoothly, finding far greater savings than it estimated.

Then in June this year NationsBank bought Montgomery Securities, a privately held San Francisco investment bank, for $1.2bn, in a deal primarily aimed at giving it the power to offer its medium-sized corporate customers the option of an initial stock market flotation – again causing controversy on Wall Street.

And geographically, Mr McColl, 62, cannot hide an itch to expand to the west coast. "Frankly, all our research tells us California is where we should be next. One in eight Americans live there and it's growing gangbusters."

Entering the state by acquisition is difficult, as California has already had its own internal wave of mergers. So the new "model" could be extended.

"We don't rule out the possibility of entering the state in a fashion which we've never used. We could create a network of branches in snpermarkets. We could complement that with a series of free-standing kiosks with ATM machines.

"We could spend a lot of money doing that and spend less than it would take to acquire a large franchise – particularly as there aren't that many left."

NationsBank also has international ambitions, although these are subservient to moving westwards within the US.

But the "model bank" effort is at the heart of Mr McColl's blueprint for NationsBank after he retires (probably in three years' time). "I want to make NationsBank a brand. We have high name recognition now, but to be successful your brand has to stand for something. It can't just stand for 'bank'.

"In future, NationsBank needs to stand for good customer service. We're light years away from where we want to be, but we're going to get there."

John Authers

FT GUIDE TO:

UNIVERSITY ADMISSIONS

This is the crunch week for UK students hoping to win a place at university. But there seems to be a big scramble this year. What's going on?

In fact, there is a scramble every year as A-level students who do not achieve the grades to enter their preferred institution hurry to find places at universities that still have vacancies.

But yes, you're right, there is a big scramble this year. UCAS, the Universities and Colleges Admissions Service, reported a 40 per cent increase in late applications compared with last year.

Why all the hurry?

Tuition fees. Last month, the government announced that it will not only scrap the maintenance grant but also allow universities to charge students £1,000-a-year fees from next year.

Why should this cause a stampede?

At the moment, students do not pay tuition fees, and many also receive a non-repayable grant to cover their board and lodging.

But universities are so strapped for cash – they are facing a £3bn shortfall by 2000 – that the government has chosen to raise some extra funds by charging students.

Next year students will have to pay tuition fees and take out loans for everyday expenses – a cost which the government calculates could exceed £10,000 by the end of a three-year degree.

As a result, thousands of A-level students who had been planning a "gap year" between school and university are now entering the race for one of the last remaining free places in British higher education.

But didn't the government announce a tuition fee amnesty for students taking a "gap year" in 1997-1998?

Yes and no. Only those who made a formal application last year for what is called a "deferred entry" place will be given the concession – about 19,000 students.

According to the National Union of Students, that still leaves about 70,000 students who have arranged a "gap year" and who decided to apply to university after collecting their results.

So how have the 70,000 students taken the news?

UCAS says there have already been 10,000 late applications to the "clearing" system. Admissions officials estimate that figure could rise to about 40,000 before the academic year begins in October.

What's the "clearing" system?

Basically, it is a centralised mopping-up process, run by UCAS, which seeks to match qualified students with vacancies at universities.

Shortly after the pnblication of the A-level results on Thursday, 220 institutions – out of 256 – reported vacancies on 24,000 courses.

It sounds a lot, but after the first day, 211,575 places out of 310,000 had been confirmed by universities, compared with just 177,019 at the same stage last year.

Why the big increase in the number of students securing places at university so soon after publication of the A-level results?

The main reason is the record pass rate at A-level – which rose for the 16th successive year to reach 87.1 per cent – and the fact that over half the students achieved one of the top three grades.

It means that more students are likely to have achieved the A-level grades that their "conditional offer" of a university place depends on.

Don't all students who pass their A-levels win places at British universities?

No. It is true that in most countries, students who pass the main sixth-form exam can go on to higher education. In Germany, the *abitur* is an almost automatic ticket to university of your choice, as is the *baccalaureate* in France.

But in the UK, it is different. Most students apply before they have taken their A-levels, and universities make "conditional offers" on the basis of predictions from school teachers.

Why don't British universities follow the international example?

It would certainly take the stress out of the admissions process.

On the other hand, universities in Europe and the United States suffer other problems – overcrowded lecture theatres, poor student support by British standards, high drop-out rates – because of their greater obligation to admit students.

So does this mean that Britisb students are condemned to a panic-stricken August for ever more?

Not necessarily. One option is a Post Qualification Admissions system where students would apply once they have received their A-level results.

UCAS wants it, so do the schools and universities. The question is practicality: putting back the A-levels by a couple of months to give examiners and admissions tutors the chance to mark scripts and select candidates.

In the light of this year'a scramble, vice-chancellors, together with UCAS, are setting up a review team to find a solution.

It could mean that what is dubbed the "PQA" will be on every sixth-former's lips in five years' time.

Simon Targett

Gillian Tett · Economics Notebook

Japan prepares to follow fashion

The central bank could benefit from the adoption of western-style inflation targets

Australia, Canada and New Zealand have one. So do the UK, Spain and Sweden. Even Finland has recently jumped on the handwagon – and adopted an inflation target.

Now some Japanese officials are wondering whether they should also copy this latest western innovation, and introduce their own Japanese-style inflation targets.

At face value, it does not seem a pressing task. Japan has the lowest rate of price growth of any leading industrialised nation this decade. As the economy has sagged, deflation, rather than inflation, bas been the main cause for alarm.

But the issue has started to provoke reflection in Tokyo. In April the Bank of Japan will undergo its most significant change for 50 years. The Japanese parliament recently passed a law that will give the bank – hitberto subservient to the Finance Ministry – independence in setting interest rates.

Just how independent the bank will really be is uncertain: though monetary policy will be determined by an independant council, some observers fear the government may still find informal ways to influence decisions.

Nevertheless, one change is striking. For the first time, the bank will be given an explicit mandate to guard "price stability". This is a break from the past five decades, in which monetary policy was guided by an ambiguous botchpotch of factors including the current account, money supply and growth.

The problem the bank faces – along with the 25 other central banks granted greater independence since the late 1980s – is just bow to interpret thia goal.

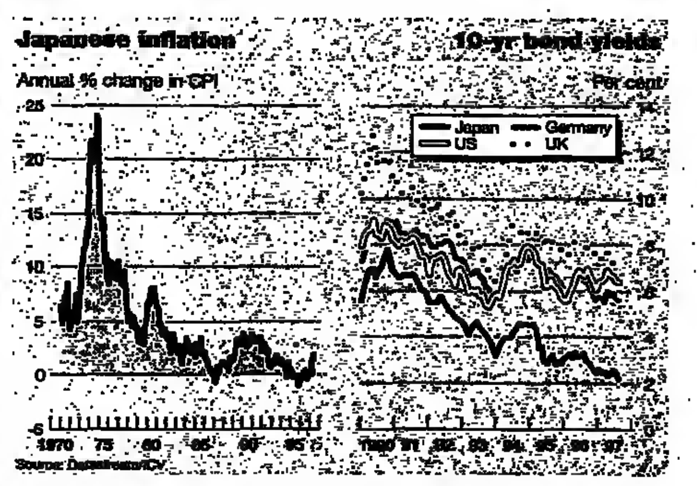
One option would be to define "price stability" by watching a basket of indices, such as monetary targets, producer prices and retail price inflation. The German Bundesbank effectively uses this route (although in public it espouses the use of monetary targets).

The other option Japanese officials are mulling over would be to follow fashion and plump for a single inflation target of the sort used in New Zealand or the UK.

This latter approach certainly has its attractions. Inflation targets are transparent, and can therefore help protect policy from short-term meddling by politicians. This in turn holsters inflation credibility in markets. Targets can also help engender a low inflation mood among the public at large: employees, for example, may accept smaller wage increases if they believe the bank will deliver a consistent, clear inflation target.

But is this needed in Japan? During the past four years, the country recorded an annual average inflation rate of 0.5 per cent. In April, the index spiked up, following a rise in consumption tax from 3 to 5 per cent. But most economists believe underlying inflation shows almost no growth.

Of course, this rosy scenario might not last. Older Japanese officials remember a surge of inflation in the 1970s, partly because politicians stopped the central bank from raising rates. Future bureaucrats might be similarly lax. The whole point of a target, after all, is to reassure markets that rampant inflation – however unlikely now – will remain unthinkable in future.



Such reassurance eeems unnecessary at present. Japanese long-term rates are already far lower than other advanced industrialised countries. If Japan were to edopt the type of targets or bands used in other countries – the UK's 2.5 per cent, say – this could alarm, rather than reassure, the markets because it is higher than current inflation levels.

Japan could adopt a lower band or target. A band of between 0 and 2 per cent might be sensible. Or it could set a target near zero inflation.

No other central bank has attempted this. And some suspect it would be unwise. One theory circulating among western economists is that some inflation is needed to "grease the wheels" of the employment system. It is easier, the argument goes, to make cuts in real wages in a recession and maintain employment levels if inflation disguises this with nominal increases in wage levels.

This may not hold true in Japan. Some intriguing research into employment trends this decade by two Bank of Japan economists, Takeshi Kimura and Kazuo Ueda* euggests that wages can fall in real terms in Japan in times of low inflation because the country's employment system allows easy cuts in overtime and bonuses. "We tentatively conclude that there is no long-run trade off between the goal of stable prices and low unemployment in Japan," they write. A very low inflation target, in other words, may not be implausible.

An inflation target has other drawbacks. One is the dubious quality of Japanese consumer price data. The index is widely believed to have understated price growth in recent years by a full percentage point or more. This is because it has a relatively narrow coverage; it does not, for example, cover the Japanese discount stores that have recently emerged.

Another problem is that an inflation target would not have averted Japan's recent economic woes.

The disastrous 1980s bubble, for example, involved a dramatic surge in asset prices. But during this period goods prices – strikingly – barely rose. Focusing on consumer price targets alone would thus provide no protection against similar bubbles.

And yet, for all these difficulties, the concept has one overriding attraction: simplicity. Inflation targets can be relatively easily understood by the public. They can even be grasped by politicians. They are not ambiguous.

For Japan, this concept is not merely attractive, but pathbreaking. Decision-making in Japan has traditionally been left to the bureaucrats. They, in turn, carved out policy behind closed doors in a cloud of ambiguity. Independent policy debate was often stifled.

Could an inflation target change this? Not automatically. But it might give the bank the means to resist pressure from the government. It might stimulate debate about the bank's performance. And this, in turn, might even encourage badly needed discussion about other, more pressing economic problems, such as productivity levels.

This, in the last resort, would be the single best reason for Japan to adopt this latest western fashion.

**Downward Nominal Wage Rigidity in Japan: Is Price Stability Costly? Bank of Japan discussion paper by Takeshi Kimura, Bank of Japan, and Kazuo Ueda, The University of Tokyo and Bank of Japan. April 1997.*

ADVERTISING

Avon tries a make-over

Meg Carter on plans to reposition the cosmetics group

Avon Cosmetics, the door-to-door beauty company, launches its first UK advertising in almost four years next month, the culmination of a £2m facelift to broaden the brand's appeal.

The company, founded in the US 111 years ago, started in the UK in 1959. Yet while it still enjoys significant worldwide sales – turnover was $4.8bn (£2.9bn) last year – it has suffered from the recession and an old-fashioned image.

In the UK, sales in the first half of this year were up 10 per cent on the same period last year, according to UK chief executive Sandy Mountford. Even so, she says: "Too many people regard Avon as 'my mum's make-up company'."

Avon famously relies on a 150,000-strong, predominantly female UK sales force to sell its 5,000 products to women, both at home and in the workplace. Its core lines are cosmetics, fragrances and toiletries although it also sells Avon-branded men's and children's products, jewellery, gifts and collectibles.

The company's main selling tool is the Avon brochure, which is updated and re-printed every three weeks.

Mrs Mountford, who joined Avon as a sales representative in Canada 17 years ago, was appointed UK chief executive in March last year. While the company has made efforts to broaden the appeal of its range to younger women, its core clientele remains women aged between 25 and 45, she explains.

Sandy Mountford: "Too many people regard Avon as 'my mum's make-up company'"

The first step was a new logo to update the look of the products. The brochure was then redesigned to appear more contemporary.

The advertising campaign, which has been created in-house, will be Avon's first public declaration of its repositioning under the theme: "Dare to change your mind about Avon".

"The aim is to show people we can stand head-to-head with anyone in the market-place," Mrs Mountford says. "However, we do not want to move away from our core market, which is very committed and loyal. But we do want to expose ourselves to customers who are not currently buying."

Another initiative to be launched next month is the introduction in the UK of an 0845 telephone number. This will enable new customers who are not in contact with an Avon representative to find their nearest salesperson or, if they prefer, buy goods direct. "The key barrier to buying is where someone does not have a local rep nearby so they must hunt us out," Mrs Mountford says. "Our experience suggests people still want to buy from home or, increasingly, work."

It is not, she insists, an attempt to replace the Avon sales force. In fact, Avon believes it is well-positioned to capitalise on consumers' growing interest in direct selling and home shopping.

TELEVISION

Chronicle of a death foretold

Andy Lack, president of NBC News, predicts the end of TV as we know it

Andy Lack, president of NBC News, does not mince his words when describing the future of the television genre in which he has spent his working life.

"The present reliance on television news will be dead in the next century. My kids have already begun to fall in love with the computer screen," says Mr Lack whose tasks include overseeing the progress of MSNBC, the interactive television channel linked to the internet. MSNBC, a joint venture between the US network company and Bill Gates's Microsoft, was launched more than a year ago.

"MSNBC in the US is really the future of NBC News," says Mr Lack. "In the next century, convergence will happen. For me the greatest challenge is to attract the next generation of news and information viewers."

Although Mr Lack is convinced "television will be dead as we know it" in the next century, he emphasises that the change will take longer than most people expect. "There's been far too much hype, and I think Bill Gates would agree with me about the speed at which this universe is going to change."

In spite of the attention it has attracted, MSNBC takes up a small part of the research and development budget of General Electric, the owner of NBC. The NBC News president believes it will be at least a decade before he can get full motion video – television as we know it – widely available in the US home via a PC.

Mr Lack is encouraged by the performance of the venture even though on average news days its share of US viewing is about 0.1 per cent compared with about 0.4 per cent for Ted Turner's Cable News Network. Its share equals 100,000 people who are, almost by definition, computer users and enthusiasts.

"We're not losing money and we are financially solid through 1998," he says. He is also encouraged that on "big news" days, such as the TWA aeroplane crash, there is a surge of interest in the channel.

The interactive channel is also on trial in Latin America and NBC is talking to its partner in Germany, NTV. But it could be three to five years before the channel is launched in Germany and Japan and even longer in the UK, he says.

The channel is just the latest initiative by NBC to extend its brand as a provider of news and information around the world. The station came to Europe in 1993 by buying Super Channel to get access to 60m multi-channel European homes. "We didn't appreciate how difficult it would be to retain the distribution, which is essentially what we bought. But we haven't lost any more money than we projected and we are closer to breaking even than we thought we would be at this point," says Mr Lack.

Dateline, NBC's nightly news magazine, has 500,000 viewers a night in Europe. "That's a nice little number for us. That's the real meaning of brand extension," he says.

CNBC was launched in Europe a year ago and has, Mr Lack says, already established itself. Financial Times Television provides a large segment of programming daily.

In April, CNBC Europe quoted independent cross-border research by InterView International of the Netherlands to show that 2.7m viewers had tuned in over the past year compared with 1.7m for European Business News, its main rival.

The one thing Mr Lack is not going to do is try to compete head-on with CNN's 24-hour worldwide television news. But, even here, he does not rule out round-the-clock television news channels for particular countries.

Raymond Snoddy

Raymond Snoddy · Media

Follow the money

It is clear that the holiday season is nearly over because the number of invitations to conferences, seminars and symposiums to consider the future of the media, the state of "convergence", even of civilisation as we know it, is rising remorselessly.

In the UK, the glasses will scarcely have been washed after next weekend's Edinburgh International Television Festival before it will be time to wander off to the Cambridge Convention of the Royal Television Society. This weighty junket – which promises to try to discover what audiences want – will clash with members of the marketing community jumping on to the cruise liner Oriana so that they can all steam around the Channel Islands for a couple of days. The latter will have no chance of escaping from detailed consideration of the importance of brands and the impact of the television revolution.

In Germany, in the first week of September, many of the same crowd will gather for the MedienForum Berlin-Brandenburg, the Seventh International Conference for Media Industry and Policy. Later in the month, British and Italian communications policymakers will assemble near Siena to consider the challenge of rapid change and whether there is any future for Europe's public service broadcasters.

In fact, with a little bit of careful planning, media executives could come back refreshed from their villas in Tuscany and spend from now until Christmas Eve in conferences on the future of the media – and end up little the wiser.

All this activity is symptomatic of genuine concerns: that technology is changing the existing communications environment in so radical a way that existing businesses could be humbled and new empires created by the latest equivalent of Bill Gates and friends popping out of a garage.

The one reassuring thing is that so far there is no single and easy truth written on a tablet of stone and available only to the few. Even top media participants such as Rupert Murdoch are confused. The News Corporation chairman, who keeps as close a watch as any on the latest technology, says quite simply he does not know the answer to many vital questions. These include speculation as to whether the computer and the television set will one day fuse into one or even whether computers will emerge outright victors.

A crude stab can, however, be made at a few simple working hypotheses, though these may well have to be updated in the light of new evidence.

The history of communications suggests that, with a very few exceptions, the impact of new technology is absorbed, the market is reshuffled and everyone starts communicating again – but with even greater intensity. No central method of communications has yet fallen entirely by the wayside and been superseded.

Radio, for example, even though it lacks pictures, is flourishing in spite of the expansion of television channels. It would be wise to avoid falling down and worshipping the internet – well, not just yet anyway – before there has been time for a proper evaluation of what it is really good at (e-mail and transactional services) and what it is less good at (replicating and competing with mass media).

> Technology is changing the communications environment in so radical a way that businesses could be humbled and new empires created

All the evidence so far suggests that a new communications technology, anything from the video to the compact disc and satellite television, has usually taken at least 10 years to travel from prototype to entrenched mass consumer product.

This means that institutions will usually have time to adapt to change, as long as they have been paying attention to what has been going on and keeping up with their research and development.

The pioneers usually do end up with the arrows in their backs, although the few, such as Microsoft, that make it through the litter of small business failures do spectacularly well.

It is still easy to overestimate the impact of change on consumers. But the information business will have to change and be less vertically and hierarchically organised. And, as Terry McGraw of the information group McGraw Hill never tires of saying, it will have to spend a lot of time stimulating and retaining its talent.

In the end there is only one working hypothesis, or truism, that is worth much. Take the advice of Deep Throat to the Washington Post's Watergate investigators: follow the money. In this case that means watching very carefully where the consumers are placing their bets in information and entertainment and then follow them as if they were the Pied Piper.

Ad in the News · Mercedes

A model of its kind

There is a school of thought that believes a brand like Mercedes does not need to advertise. "Everyone knows how good Mercedes are, don't they?" runs the argument – the "don't they?" being the problem.

Mercedes has been a spasmodic advertiser, particularly on television. This may be explained by the relative cost of making the kind of glossy commercial in keeping with the brand's reputation, not to mention the cost of television airtime in relation to the number of viewers who are prospective Mercedes buyers.

Instead the German giant has used posters and press advertising. These have been highly acclaimed within the advertising community, where Mercedes is perceived to be a dream client.

But now there is a new TV commercial containing an idea so simple that agencies across London will be kicking themselves for not having presented it to Mercedes before.

Janis Joplin belts out her magnificent *Oh Lord, won't you buy me a Mercedes-Benz* on the soundtrack, while we watch shots of Mercedes' drivers standing proudly by their vintage models.

The ad moves on to feature the C180 model. A dog hangs out of the window in the breeze as the owner relaxes into driving. The whimsical tone meets the agency's brief to humanise a brand known for engineering quality. It is best displayed in a scene where a young boy stands proudly in front of his model Mercedes.

There's also a more prosaic message (which explains the move on to TV): Mercedes are not as expensive as you might think. The company believes consumers over-estimate the cost of its cars by at least £10,000.

That's why the ad finishes with the line: "Consider your prayers answered. £19,990."

It's proof yet again that in advertising the simplest ideas can be the best.

Stefano Hatfield
The author edits Campaign

Tim Jackson · On the Web

The miracle of the Virgin

This column has long been bearish on the business of internet service provision. With low entry barriers and little to distinguish one operator from another, the industry is intensely price-competitive.

This week, however, I discovered an internet service provider that seems surprisingly close to making money. The company is Virgin Net, an internet-cum-online service launched last November as a joint venture with CableTel, a subsidiary of a US cable conglomerate.

After an initial advertising campaign, Virgin Net claims 50,000 paying subscribers, and says it is signing up 10,000 more a month. The company reports that 80 per cent of those who take its free one-month trial turn into paying customers, and quotes a modest churn rate of 1.5 per cent of its user base per month (18 per cent a year). By this time next year, the company hopes to have between 150,000 and 200,000 customers.

The reason behind this apparent miracle is Richard Branson. The bearded, sweater-wearing billionaire has stretched the Virgin brand to cover everything from airlines to hotels, records, music retailing, soft drinks, wedding dresses and financial services.

Branson's personality is central to the brand. When new customers first log on to the Virgin Net service, they find an automated e-mail from him awaiting them. In the mistaken belief that Mr Branson had written to them himself, lots of customers have replied to the message saying how flattered they are that he has taken the trouble to contact them in person.

Typically for Mr Branson, Virgin Net has priced its service at £10 ($16) – far from the highest in Britain, but certainly not the lowest on the block.

The Virgin Group owns 51 per cent of Virgin Net. CableTel owns the remainder, but also provides internet access, hardware, tech and service support to the company under contract for a flat monthly fee per customer per month.

The monthly fee sounds low enough to leave CableTel only a narrow profit margin. Next May the fee is due to fall by 40 per cent.

David Clarke, Virgin Net's managing director, admits he cannot see how CableTel will make money under the new terms. But he insists it is not in Virgin Net's interests to force CableTel to provide the service at a loss. Acquiring customers is expensive, the small saving in monthly costs from taking a tough line with CableTel might well cause disproportionate customer defections if it reduces the quality of service.

In any case, Virgin Net has ambitions to be more than just an ISP. The company has 60 staff, many of whom develop content for a web site that is intended as the beginnings of an online service aimed at non-technical, rather down-market customers and in particular students and parents of young children.

In an attempt to remedy the internet's American flavour, the site (*www.virgin.net*) is stuffed with British information, including data from the Automobile Association, local air quality figures, a British street map, and information on a hot new site developed by Britain's Crown Prosecution Service which it is hard to imagine Americans and Asians flocking to.

AOL would probably deride the lack of content and the paucity of graphics resulting from the fact that Virgin Net cannot, as AOL does, keep the graphics on the client's computer.

But Mr Clarke believes that a business model like AOL's may be the company's destiny. He plans to put the Virgin Megastores on the site, to sell books and to let customers buy theatre tickets and choose exactly where to sit.

AOL is proving increasingly successful at extracting placement fees from companies that want to sell to its customers. It recently persuaded *Amazon.com* to commit an astounding $25m to become its favoured bookseller.

In the old days, the success of this model depended on the fact that the online services were closed worlds: partners wanting to sell inside could be forced to pay for access to the customer base like hot-dog concessions in a baseball stadium. Today, now that the online services have opened up to the internet, two factors will determine success.

One is inertia; it helps if customers are too lazy or technically inept to look for books or theatre tickets beyond the home page of their own provider. The other factor is brand loyalty: if the imprimatur of the online service encourages customers to type in their credit card numbers, then partners will receive value from paying.

Virgin Net seems to have made a promising start. Mr Clarke claims his customers spend an average 18 minutes per session on the internet, six of which are on Virgin Net's own web site.

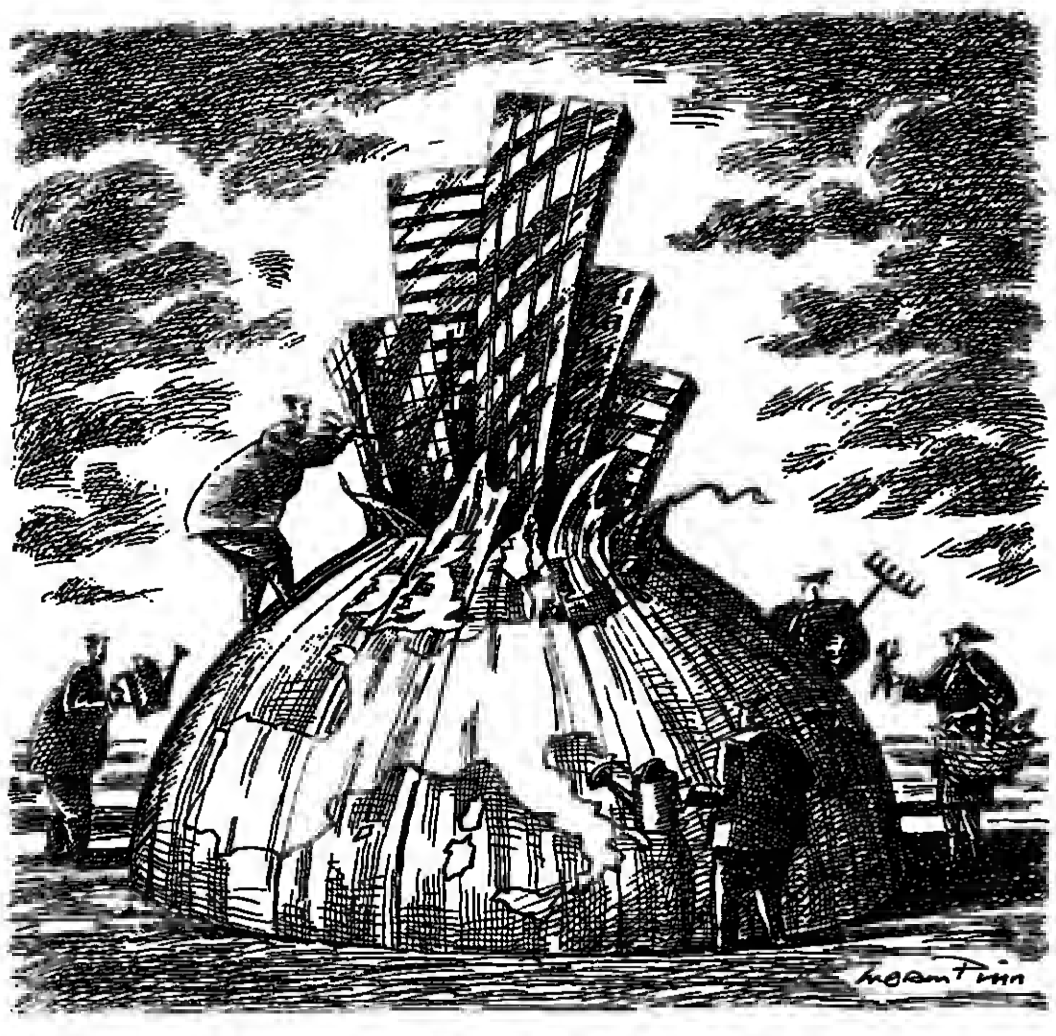
The doubt hanging over the company's future is whether this will persist as its customers become more familiar with the internet.

The good news for Virgin Net is that it may still be able to make money if these electronic-commerce ambitions come to naught. The bad news is that its infrastructure partner may not.

tim.jackson@pobox.com

Europe is ripe for growth, argue **W. Chan Kim** and **Renée Mauborgne**

Opportunity beckons



European companies are often pessimistic about the continent's economic prospects. They point to sluggish growth, high unemployment, rigid labour markets and the sort of destructive overcapacity that led to the closure of Renault's Belgian plant.

But if Europe is really so badly off, why are venture capitalists increasingly setting up sbop there? Why is there a growing presence of North American investors in continental Europe's capital markets? And why did Microsoft recently decide to build an $80m (£53.3m) research centre in the UK where it believes some of the most exciting research for the future is being conducted?

The answer is that Europe has many advantages that make it ripe for growth. It has the European Union, intent upon becoming the world's biggest market; it has an education level unmatched in many parts of the world; and it bas one of the world's greatest collectioos of cultural resources in art, music and literature. It also has German production technology, Freoch and Italian design flair and London's strong capital markets. Europe's proximity to promising and growing eastern European economies and the opening of Easdaq, the European stock exchange, to raise funds for start-up companies are other strong assets.

European companies face potentially destabilising forces in global competition, deregulation and changes in technology, but these developments are also creating opportunities for innovative businesses to solve the problems of others.

Hasso Plattner, vice-chairman and co-founder of Sap, the German-based business application software producer, pot it like this: "For every weakness Europe may have to compete in the information age, it also has oumerous strengths which give Europe an edge."

In spite of Europe's sluggishness in responding to the information age, Sap bas run out in froot, setting the standard in business application software and earning an estimated 67 per cent of world market share.

But Sap is exceptional. Why do many other European companies appear to have difficulty exploiting new business opportunities?

In research running for the past five years, we found certain discernible factors that distinguish those companies that are surging ahead from tbose that are not. Partly it is to do with attitude and approach.

Instead of seeing themselves as victims of Europe's depressing industry conditions, the more successful companies focus on how their own actions create the opportunities of their industry. The question they pose is not "What should we do to improve performance in light of the industry?" but "What should we do to offer huyers a quantum leap in value which will create soaring profitable growth irrespective of the economy?" As a result, they explore a far wider range of strategic options than their rivals. This opens up their creative scope and allows them to see opportunities where other European companies can perceive only obstacles.

The Bert Claeys Group, a Belgian cinema operator, is a case in point. The Belgian cinema industry had been declining for more than three decades and was going through an industry shakeout in the late 1980s. As videos, cable and satellite TV came into Belgian bomes and film distributors shortened the time between the release of a film at the cinema and on video, the fate of the industry seemed sealed.

Acting on the assumption that industry conditions are a given, Belgian cinema operators tried to maximise their share of shrinking demand by splitting cinemas into multiple screens, improving marketing and avoiding large, fixed-cost investments. That is, all except Bert Claeys.

Bert Claeys saw how its competitors' responses were abetting the downfall of the industry. With small screens, old seats, poor projection equipmeot, higher prices and lower cboice than home entertainment, was it surprising that the industry was collapsing?

Bert Claeys refused to accept that decline was irreversible and set out to put the magic hack into cinema. In 1988 it built Kinepolis, the world's first "megaplex" with 25 screens and 7,600 seats. With wide screens, spectacular sound, comfortable seating, the best pick of blockbusters and easy parking, Bert Claeys not only won more than 50 per cent of the Brussels' market in its first year, but revitalised the industry.

Cinema demand increased by over 40 per cent and the company achieved a profit margin that was double the industry average. This was all made possible by Bert Claeys' willingness to challenge commoo perceptions.

Will European companies seize the advantage by shifting their strategic thinking or will they be left behind?

A second barrier that often blocks European companies from seeing growth opportunities is a focus on defending the existing order, rather than creating the future. Rather than seeing economic changes as an opportunity to innovate and grow, many European companies see change as a threat. High-growth companies, however, do the exact opposite and as a consequence find opportunities in the midst of what others see as treacherous industry conditions.

The Swiss watch industry is a classic case. In the early 1980s the industry was oo the brink of collapse. From being the worldwide leader of the watch industry, by the early 1980s Swiss watches accounted for a mere 2 per cent of the 500m watches sold per year. Swiss watches had been almost completely driven out of the low- and mid-range of the market by the low-cost, highly accurate quartz watches made by Hong Koog and Japan. With Switzerland's high labour costs the end of its watch industry seemed inevitable.

But, as Nicbolas Hayek, the newly appointed chairman of SMH, the largest Swiss watchmaker, was to prove, the Swiss were losing not because of low-cost Asian imports or high-cost labour in Switzerland. They were failing because, while the Asians had been concentrating on the future, the Swiss had been defending the present.

The quartz movement was not an Asian invention. It was Swiss. Although the quartz movement improved accuracy to unheard of levels and rednced costs, the Swiss did not act on, let alone register, this opportunity. Their focus was on defending the traditional art of watchmaking based on skill-intensive mechanical movements. When Mr Hayek reoriented the industry towards the future and introduced the highly innovative, low-priced, high-quality quartz watch, the Swatch, the Swiss once again achieved world leadership.

The Swiss reflected Europe's historical strength in innovation. Where many European companies fail, however, is where the biggest opportunities are. That is, in linking innovation to what most buyers value. As innovation moves from science to technology to emerging market opportunities to mass markets, European companies' success rate plummets.

Commercialisation of new discoveries is often a shunned topic. It could be argued that, in some senses, European companies are too intellectual. Often it has been the Japanese that cash in on Europe's scientific efforts by taking its innovations and translating them into mass-market products – as Japan and Hong Kong did with the Swiss watch industry's quartz movement.

To seize the future, European companies have to go beyond technological innovation to what we term "value innovation" – linking innovation to what the mass of buyers value.

That is what Hayek did with the launch of the Swatch and what Renault did with the 1993 launch of the Twingo – the economical and stylish small car – creating a selling sensation in stark contrast to its recent plant closing. Managements must ask themselves how their companies' products and services can offer consumers radically superior valoe. How do they make buyers' lives more productive, more fun, less complex, less troublesome and more profitable? At the same time, are their products and services priced at a level easily accessible to the mass of buyers? High-growth companies understand that offering a new and better prodnct or service at a price most customers cannot afford is like laying an egg another company will hatch.

We have outlined what we consider to be three important areas of strategic thinking which companies need to adopt if they are to prosper – moving from industry determinism to determining industry, from defending the present to creating the future, and from technological innovation to value innovation.

It is not only Sap, the Bert Claeys Gronp or SMH Swatch that can prosper in a mature marketplace. The opportunity for European companies is out there. The question is: will they seize the advantage by shifting their strategic thinking or will they be left behind?

W. Chan Kim is the Boston Consulting Group Bruce D. Henderson professor of international management at Insead, France. Renée Mauborgne is Inseod distinguished fellow and affiliate professor of strategy and management. She is olso president of ITM Research.

This orticle follows on from "Volue innovation: the strategic logic of high growth" in the Harvord Business Review, Jan-Feb 1997.

PARTNERS

Norton & Townsend

[illegible] *fitted in* [illegible] *They recently* [illegible] *New York and* [illegible] *turnover of £1.5m.*

Edward: "[illegible] build a boat, you [illegible] make most things, even a suit. Both are three-dimensional processes. [illegible] material fit [illegible] When Matthew [illegible] I'd been out [illegible] seven [illegible] how [illegible] America is very service [illegible] between [illegible]

I remember [illegible] and manufacturers [illegible] starting to make [illegible] they said they [illegible] In the early days I [illegible] time getting an top [illegible] and tying them [illegible] contracts which meant they'd be penalised if their goods weren't delivered on time. Getting our customers to pay a deposit also helped because it meant they could finance our growth.

In return, the customers have suits at a better price because we haven't borrowed money. When we've thought about going to the banks, we've sat down and analysed the reasons why. If we had the money ourselves, would it be such a good idea? So far the answer has been no, which means we've not over-extended and lost control.

Matthew and I have simply reinvented the wheel of [illegible] tailoring [illegible] making the [illegible] improved the service and made it affordable."

Matthew: "When we launched bespoke tailoring [illegible] off the peg suits [illegible] less attractive. Edward's family had been in the business for years yet he needed convincing that my idea would work, particularly as it meant him leaving Miami for Yorkshire.

One of the things he liked was that we would have no [illegible] We spent about six months [illegible] the [illegible] announced the [illegible] business and still having [illegible] experimenting [illegible] business [illegible] a few customers in the south. It's the same for Edward although he concentrates on the north from offices in Pudsey near Leeds. He's got a very Yorkshire attitude to business which [illegible] thing."

Fiona Lafferty

Recharge the batteries with a little time wasting

Lucy Kellaway

How much time do you waste every day? The average senior manager wastes two and a half bours, according to the lastest time management survey. This, so we are told, is most alarming. Appareotly it costs UK companies many millions of pounds a year.

But to me, time wasting oo this scale is oot shocking in the least. There is nothing wrong with wasting time, so long as you do it properly. Most of us need to waste some time in order to get anything done at all. Flipping through the newspapers, standing by the coffee machine or playing a game of patience on the PC are all valuable uses of time; they recharge the batteries and add variety to the day.

What is shocking about this survey is that the executives' so-called "wasted time" is not spent like this at all. They rank their top two time wasters as interruptions from colleagues and time spent solving other people's prohlems. This proves what I bad long suspected: that the modern executive has little in common with the 1990s model of the caring, sharing team player. The fact that they see other people's problems as a waste of time and fume every time a colleague pops a head around the door shows how facile all this talk is about manager-as-coach.

The report concludes – somewhat bizarrely – that the answer to the time-wasting problem is for all of us to bold more off-site meetings. On second thoughts, the conclusion is not strange at all: the survey was carried out by Athenaeum Hotel and Apartmeots, which presumably makes a good deal of money from this variety of corporate torture.

These off-site sessions are my idea of meetings hell: the office equivalent of holding a party on a boat. You are trapped, and this does little to get the creative juices flowing. Furtbermore, such meetings are always too long. In order to justify hiring the veoue, a buge wack of time is usually set aside and the agenda crawls on interminably, with no chance of sneaking back to your desk during the *longueur*. A better way of saving time would be to ban all off-site meetings and use the time for genuine creative time wasting at the computer or the drinks machine.

Change is out. Predictability is in. At least, there are some eocouraging signs that it is about to make a comeback. Howard Stevenson, the management guru from Harvard, has written a book with the title *Do Lunch or Be Lunch*, in which he extols the virtues of predictability.

In an interview with the FT last week he drew attention to an asymmetry in the way that companies treat their customers and their employees. They have long understood that consumers like a reliable product, and put a lot of effort into ensuring that what they sell is thoroughly consistent. But they forget that employees have as much, if not more, desire for things to be dependable. Predictability does not mean that the status quo need prevail forever. It just means that everyone needs to know where they are. A pretty basic need.

Indeed, this all sounds so obvious as to be barely worth saying. But companies are so caught up in trying to be dynamic and in feeding thair sbareholders with exciting announcements, they tend to forget it.

Will the idea catch on as a new managemant fad? The problem is that it does not sound right. I cannot see all those fashion-conscious managers boasting to their rivals that they've dona quality and done re-engineering, and that now they are into predictability.

I returned from holiday last week to find a letter from a reader taking issue with my view that people who do not take proper holidays are sad workaholics with no balance in their lives. The reader (who goes by the inappropriate name of Mr M.F. Holliday) assures me that for the past 40 years he and his wife have worked 60-hour weeks and have raised a large family. They have once or twice attempted a holiday but found it costly, stressful and exhausting and so have concentrated on life's small pleasures instead. In the old days when they were just starting out in business they would unwind on a Saturday night by sharing *one* beer. Now that their business is thriving they might celebrate with the odd glass of claret instead.

It is always nice to hear from FT readers whose lives have turned out so well. Unfortunately, most of us need to split a six-pack at least to get anything resembling happy. Moreover, we crave an occasional change of scenery. Of course, holidays can be hell – badly behaved children, crowds – but even these breaks are worth it because they make returning to work a pleasure by contrast.

BUSINESS EDUCATION

Della Bradshaw charts the progress of Europe's alumni groups

Old boys move on

Tony Andrews

Clubbing together: alumni reunions used to consist of a round of golf

For most graduates from Europe's business schools, being an old boy used to be a pretty relaxed affair. An alumni reunion used to mean a formal dinner, a few rounds of golf with old chums or a summer garden party. Any donations alumni were asked to make were for some worthy charitable cause.

But Europe's alumni associations are changing. In recent years they have come under pressure from both the schools and the alumni themselves to become more professional and responsive to business needs.

For the business schools, increasingly starved of government funding, alumni are a potential source of revenue both through donations and course fees. As executives return more frequently for executive training throughout their careers, schools are desperate to tie them to their alma mater.

For the alumni, the increasing pressure of work means they are now reluctant to attend events unless there is a positive management pay-off, says Robin Linnecar, director of the Change Partnership and chairman of the Ashridge Association in the UK, which has just celebrated its silver jubilee.

"Members are much more sophisticated now," says Mr Linnecar. "Our members are increasingly stressed and pressed for time so we have to give them something useful as opposed to something that's good for them."

And while most associations have organised seminars for some years, the content of them is now having to change, says Mr Linnecar. Whereas softer skills were in vogue some years ago, today seminars require some discussion of more hard-edged management techniques to woo participants.

Many alumni already give large chunks of time, free of charge, for the good of their business schools. Almost all schools rely on past students to help in interviewing prospective candidates, organising work placements and finding jobs.

At London Business School, for example, 150 alumni in 40 countries helped interview students for the MBA class which began last October, says Emma Caseley, director of the alumni association at LBS.

But fund-raising is increasingly seen as the big issue, particularly at LBS and Insead in Fontainebleau.

When Insead launched its fund-raising drive nearly two years ago, it was to raise FFr700m (£69.2m) to expand the school. Alumni were earmarked to provide 10 per cent of that. Alumni have responded differently depending on their nationality, says Christopher King, chairman of Avon Rubber and president of the Insead alumni association board.

"The tradition of giving is different country by country," says Mr King. "In some countries in Europe alumni think it is the joh of the state to provide the funds."

Recent Insead graduates have heen less reticent, however. Even though most of them have large debts on graduation, about half are still prepared to give to the cause, even if it is just a small amount.

The increasing professionalism of new MBA graduates is also forcing alumni associations to change, says Mr King. In particular they are pushing to use the latest technologies – at Insead, for example, they have been eager to put the alumni address lists on to the internet.

That said, the more traditional festivities will cootinue, says the alumni associetion. Devotees of the summer garden party can be reassured that sipping champegne on the lawn will be around for some time to come.

Jobs with a difference

From missiles to management

Fred Lanes is not your usual MBA. He is not a banker or a management consultant, or even a marketing man. He is a naval commander. Indeed, he is the manager in charge of the upgrade of America's Tomahawk cruise missile system based at Naval Air System Command in Washington DC.

As an active duty navy officer, Cdr Lanes spent 15 years flying jets off aircraft carriers before he talked to admirals and top civilians in the navy and decided to move away from the front line.

The navy was quite happy to give him the time to study but not the fees. So it was Wharton, Pennsylvania, where Cdr Lanes now studies on the executive MBA programme, that gave him a fellowship to finance the course.

He studies alternate weekends at Wharton and will graduate from the school in May.

Working with some 80 other government employees and a further 100 or so staff from cootractor Hughes Missile Systems – not to mention all their subcontractors – Cdr Lanes needs both his naval knowhow and his oewly acquired management skills.

In operational naval terms he needs to be confident of the missile performance, while in corporate terms he needs to assess cost.

With the research and development upgrade programme costing several hundred million dollars, there is plenty of leeway for the navy to save money. "I have used some advanced corporate financing skills to evalnate some perspectives of the programme directly," says Cdr Lanes.

Cdr Lanes has also helped to re-engineer the focns of the research group. It is now "competency-aligned", as he puts it in true business school fashion, rather than "matrix-aligned", as previously.

Cdr Lanes is still unusual in military terms. Most serving officers prefer to study for masters degrees in technical subjects rather than management, if they choose to study at all, that is.

But with the need for the military to reduce costs, it is not surprising that the US navy is clearly impressed with Cdr Lanes' progress. He has recently learnt that in 1998 he will be promoted to the rank of captain.

DB

BUSINESS TRAVEL

Travel Update · Roger Bray

Lufthansa payout

Lufthansa has begun offering cash or vouchers as compensation for passengers willing to give up seats voluntarily when flights are overbooked. The vouchers can be cashed for tickets, upgrades, on-board purchases or excess baggage payments. Offering payments to travellers happy to wait for a subsequent flight is commoo in the US, where it has been suggested that some shrewd passengers on tight budgets book flights they think will be oversold in the bope of scooping windfalls. The European Union already sets cash compensation levels in Ecus depending on length of flight and delay. and Lufthansa's cash compensation broadly matches them. The vouchers are a better offer. For example, a two-hour delay or less on a European flight rates four vouchers, worth DM75 (£25) each.

Drugs sting

Travellers to Malawi should watch out for a drugs sting. Criminals have been planting drugs in luggage and then, posing as policemen, demanding bribes from passengers. The UK Foreign Office also warns that muggers, bag snatchers and confidence tricksters are active in parts of the country.

More trips ahead

A single European currency will mean more foreign business trips, a report predicts. It will spark such an upsurge of trade and investment that business travel in Europe will increase by 5 per cent to 10 per cent, says the Centre for Economic and Business Research in a report commissioned by the Association of British Travel Agents. Meanwhile, the conference business appears to be benefiting from uncertainty over the euro's introduction. Trade associations are staging increasingly frequent seminars on its implications, says Bill Richards of London-based Tourism Research and Marketing.

Paris hotel offer

Introductory rates of FFr950 (£97) for a standard room and FFr1,250 for the de luxe version are on offer until the end of the month at the new Hyatt Regency Paris-Madeleine, which opens tomorrow on the Boulevard Malesherbes. Rack rates will be FFr1,800 and FFr2,100 respectively. Prices are for single occupancy and include breakfast. Rooms have computer dataports and two telephone lines.

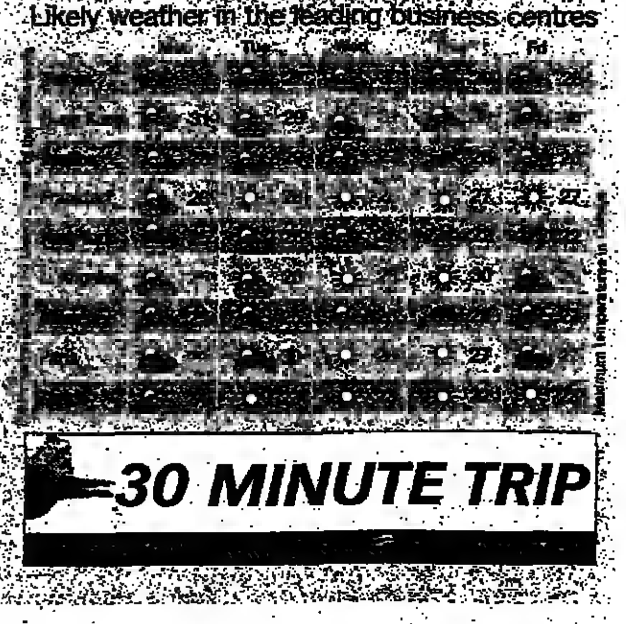
Fare promotion

Air UK is offering a range of cut-price fares to promote new routes from the UK's East Midlands Airport and extra flights from Belfast to Amsterdam. The moves follow Dutch carrier KLM's decision to increase its 45 per cent stake in the airline to 100 per cent ownership. Deals from East Midlands include a £79 ($129) return fare to Amsterdam, £129 to Hamburg and £139 to Geneva or Zurich. They must be booked by September 30 but are valid for travel until March 15.

Company service

Small companies are wasting money by failing to mirror the tight travel management policies of the multinationals, says travel agency Hogg Robinson BTI. It has launched a service aimed at British companies spending less than £100,000 a year on business trips, offering them access to a database of more than 180,000 discounted air fares and more than 10,000 reduced hotel rates.

Likely weather in the leading business centres



Victoria Griffith finds out why travellers are opting for smaller, out-of-town airports

Alternative choice

When consultant Tom Scbeffers travals between his home, oorth of Miami, and Düsseldorf, Germany, he usually flies witb the German carrier LTU from Daytona Beach, nearly two bours away hy car. Getting there is more of a hassle than the shorter journey to Miami International Airport, but Mr Scbeffers says what he saves oo the airfare makes it worthwhile.

"As a small businessman, price is important to me," he explains.

More business travellers are apparently coming to the same cooclusioo. Alternative airports are becoming a force in the market in tha US and Europe. One reasoo is that airlines pay smaller fees for use of airports with less popular locations and so can reduce the fares.

Newark International in New Jersey, which had a difficult time persuading airlines to take It seriously in the 1980s, now manages more flights than rival John F. Kennedy airport in New York – 451,000 compared with 355,000 flights last year. JFK, bowever, still bandled 2m more passengers.

Gatwick in the UK has grown so much It is beginning to challenge Londoo's Heathrow for primary airport status.

Other names are also cropping up oo business travellers' air tickets. Luton, oorth of Loodon, is attracting growing numbers of passengers.

The US discount carrier Southwest Airlines bas built its success on the extensive use of alternative airports, and has just put tbe airport at Provideoce, Rhode Island, oo tbe map by marketing it as ooe that services the Boston area.

Departure point: the business lounge at London City Airport, conveniently close to the financial district

Midwest Express bas takeo some market share from Chicago hy selling Milwaukee as a viable alternative to the Windy City.

"We'll see growing use of alternative airports in the US, and especially in Europe over the oext few years," predicts Michael Boult, in charge of supplier relations for Rosenblutb International, a travel agency.

"It's being driveo by deregulation and the emergence of oew carriers that are keeo to use alternative airports," he adds.

Carriers are being pusbed to new locations because of saturation at the main airports. "If it's a cholce between two flights a day in the middle of the night and regular service at peak bours, they'll go for the alternative airport," says David Plavin, president of Airports Council International, the industry trade organlsation. "Saturation at major destinations is a key engine of the pbenomenoo."

Price is an important – but oot the sole – factor in passengers' decisioo to use an alternative airport. In some cases, they are conveniently located. Much of the allure of the London City Airport, for example, is its proximity to the City's financial district. And Midway airport in Chicago is closer to downtown than the far larger O'Hare.

Moreover, as more corporations retreat to the suburbs, travelling executives are more likely to be heading for out-of-town destinations. The rise of Orange County's airport in California as an alternative destination to Los Angeles is largely due to the office and residential development in that area.

Faster processing through customs and immigration can be another advantage. A spokesman for the Port Authority, which runs both JFK and Newark airports, says that an international traveller can probably save up to 15 minutes by opting to fly into Newark.

Even parking can be an issue. Stewart Airport, an bour's drive north of Manhattan, points out that its parking is about $18 a day cheaper than at rival main locations.

Yet there are clear disadvantages to alternative airports, too. They rarely have the facilities of their larger competitors, so travellers may not be abla to grab a meal or do last-minute shopping before they fly out. And smaller airports can often mean extra travel time on the ground.

While flyers into Logan Airport can arrive in downtown Boston in just 15 minutes, Providence is a full hour away. And because they are smaller, these airports often have minimal access to public transport.

The obstacles mean that not every alternative airport is a success. Western Pacific went back to Denver's main airport after a failed strategy to operate out of Colorado Springs. Stewart operates just 25,000 flights a year, mostly for commuters, and a spokesman says be does not expect the airport ever to become a major player.

Yet with more passengers travelling by air every year, many large airports are simply unable to handle the increasing amount of traffic. That means airlines – and their customers – will be forced to find other locations.

Agents move into hotels

Major business traval agencies are becoming hoteliers.

One UK hotel is opening a wing exclusively for clients of Carlson Wagon Travel. And Hogg Robinson BTI is finalising a plan to take on thousands of hotel rooms in leading US and European cities for the sola use of its clients.

Meanwhile, American Express has gradually been opening branded floors in a dozen hotels worldwide with office facilities for its customers.

Tha Carlson Wagonlit wing will open at the beginning of next month at the Jarvis International in Hatfield, Hertforshire. It is part of a larger hlock of executive rooms at the hotel, but Carlson Wagonlit's rooms can be booked only through its offices.

Unlike the rest of the block, the Carlson Wagonlit rooms will each have a personal computer and printer with a wide range of Windows applications and access to the internet.

"We see this as an extension of the Carlson Wagonlit product," says Richard Lovell, northarn Europe executive vice-president for the agency. "It is early days, but we are extending our branding just as supermarkets did with own-label products 30 years ago."

Hogg Robinson is talking to hotel chains in the UK, Germany and North America about either taking allocations of rooms or buying tham outright in year-long deals.

"We are far more interested in purchasing rooms in bulk rather than branding them, which is more of a marketing exercise," says Mike Platt, director of commercial affairs.

In return for assuming tha risk, Hogg can get the rooms at a cheaper rate. Even with returnable allocations, passing the administrative burden to Hogg will allow participating hotels to cut their rates.

Hogg has other reasons for its strategy. "Price is extremely important, but what is becoming more important to the business traveller is getting a room in the first place," says Mr Platt.

For similar reasons, Amex is also looking to take over an entire floor of a London hotel. It already has a similar deal with Holiday Inn, Crowne Plaza and Hilton properties in Mexico City, Carcas, São Paolo, Buenos Aires and Stockholm. The rooms are only bookabla through Amex and each floor has its own check-in area and free breakfast service.

Business travel agents have also been pressing airlines to lease them blocks of seats, though so far without success. "They are proving a very tough nut to crack," admits Mr Platt. "But it will happen eventually."

Amon Cohen

هكذا من الأصل

ARTS

OPENINGS

HELSINKI
Jukka-Pekka Saraste conducts Magnus Lindberg's new orchestral work at the opening concert of the Helsinki festival on Saturday. The festival, which runs till September 7, also features the Frankfurt Ballet and Peter Brook's production of Beckett's *Happy Days*.

The Finnish National Opera opens its 1997-98 season on Saturday with Giancarlo del Monaco's production of *La traviata*, conducted by Okko Kamu.

GOTHENBURG
Because of its brilliant vocal writing, Rossini's *Il viaggio a Reims* was once considered too great a challenge for medium-sized opera houses. However, several have recently proved otherwise, and the Gothenburg

Opera House opens its 1997-8 season with it on Sunday. Kjell Ingebretsen conducts a staging by David Radok.

LONDON
Proms highlights this week include Sibelius's *Kullervo* Symphony conducted by Osmo Vänskä (left) on Wednesday, Schubert songs sung by Thomas Allen (right) on Thursday and the Dallas Symphony Orchestra's Proms debut under Andrew Litton on Sunday.

EDINBURGH
The San Francisco Ballet appears this week at the Edinburgh Festival with an attractively varied repertory in two programmes, at the Playhouse Theatre. Glum location; pleasing ballet company.

The playwright Caryl Churchill (right) collaborates again with the director Max Stafford-Clark for the premiere of *Blue Heart*, a pair of new plays (*Heart's Desire* and *Blue Kettle*) at the Traverse Theatre on Thursday. Churchill and Stafford-Clark have previously produced *Cloud Nine*, *Top Girls* and *Serious Money*; this production is by his company, Out of Joint.

CHICHESTER
The great ballerina Natalia Makarova (right), who starred in 1993 in the play *Tovarich* at Chichester and in the West End, now acts [illegible] in Bernard [illegible] *Misalliance*. [illegible] Hauser opening [illegible]. Her co-stars are Joss Ackland and Tony [illegible]

Sober Strauss and pretty Handel in scenic Santa Fé

David Murray reviews 'Arabella' and 'Semele' as they win more fans

Thanks to their director John Crosby, the Santa Fé Opera has established a Richard Strauss tradition in the American West. It rotates the familiar Strauss successes, of course; but it has also given the professional US stage premieres of *Intermezzo*, *Daphne*, *Friedenstag*, *Capriccio* and even *Die Liebe der Danae*, the "cheerful mythology" old Strauss intended as his swansong – never professionally staged by a British company, though the Vienna State Opera brought it here in 1953.

This year's Strauss is *Arabella*, his last collaboration with Hugo von Hofmannsthal. Hofmannsthal died suddenly just after they had sorted out Act 1 to their satisfaction; Acts 2 and 3 still needed re-working, but Strauss eventually chose to set them pretty much as they stood, out of respect. The result, as most opera-goers know by now, is an affecting romance that rarely shows as much spirit as we hope, and lets two important characters dwindle away in the later acts.

At Santa Fé *Arabella* got the whole scenic works, and then some. Robert Perdziola's wide-angle, bird's-eye view of *Alt-Wien* in 3-D backed the various sets, from Count Waldner's trunk-cluttered hotel suite (as if the family expected eviction momentarily) to a deconstructed hotel foyer at the end, with an extra staircase which began and ended nowhere. It looked messy, though the revolving stage-floor had its advantages in the second-act ball scene. Still, the settings are less important than the action, as long as that is got right.

Here it is *almost* right. The idea for *Arabella* came from an earlier Hofmannsthal short story. For thrifty, hungry reasons a strapped aristo couple, the Waldners, have raised only one of their daughters (Arabella) as a girl, the other (Zdenka or "Zdenko") less expensively as a boy. Arabella is famous as a glamorous flirt; her false "little brother" is in love with distracted Matteo, who thinks himself besotted with Arabella, so Zdenka promotes his cause selflessly and vainly – only at last to fall into bed with him herself.

The production here is by John Cox. As before at Glyndebourne, he lavishes perceptive details upon the action, but fudges half the story. The *other* half, which tracks Zdenka's relations with Matteo, develops nicely; but the weightier part, Arabella's evolution from charming tease to soberly committed fiancée, evaporates altogether, because our own Janice Watson never displays anything but the grimmest social rectitude.

Paul Slaughter

Delectable: Elizabeth Futral in the title role of Handel's 'Semele'

Indelibly, I remember Lisa della Casa's performance: all silvery, teasing charm from her first entry, with the unforeseen marital crunch still a long way off. Watson, like most of her predecessors in the role these past 20 years, is an eminently decent Nice Girl (or perhaps Mature Woman) waiting for the Right Man. She *sings* Arabella correctly and often beautifully, with nuances full of thoughtful character; but flirtatious playfulness is apparently beneath her (there was never a smile in her voice), and so she has nowhere to develop from.

As her rustic-aristo Balkan suitor, David Pittman-Jennings gets nearer to the eccentric impression he makes upon the urbane Viennese than any Mandryka I've seen in a long time. Dawn Kotoski's Zdenka is true and touching; and her Danish Matteo, Gert Henning-Jensen (a fine David in Copenhagen's *Die Meistersinger* last year), cuts a shiny, alluring figure – nothing like the usual wimp – that explains both why Zdenka loves him, and why Arabella couldn't possibly.

Crosby conducts understandingly and fluently, though he doesn't deign to mark out the dramatic junctures – the mini-epiphanies – with arresting hushes or colour-changes. Similarly, his principals leave key German words and phrases under-stressed; they are addressing a non-German audience, after all, without benefit of surtitles (which Crosby despises). Many small dramatic points went unnoticed. A good American translation exists: why not use it?

Santa Fé has staged a solid hit with Handel's *Semele*, a late work (1744) to an uncommonly witty text by Congreve. Elizabeth Futral sang the susceptible heroine delectably, once past the opening aria (the low register didn't suit her); her later flights, particularly "Myself I shall adore", sparkled through comic self-deflation. Jupiter, the god whose enamoured attentions give her such inflated ideas, was represented amiably by the veteran Rockwell Blake: stiff and un-tender in "Where-e'er you walk", but brilliant in coloratura.

John Copley produced, in the friendly-formal way we expect of him: a few "classical" pillars at either side, two or three backcloths that drew apart to reveal sexy *tableaux*, a prevailing air of chaste decorum. The Winnipeg soprano Tracy Dahl made a bright, fresh-voiced Ina (a gutsy Fiakermilli in *Arabella* too), and Patricia Spence's wryly comic Juno was a vital factor in the thinnish comedy. Kevin Langan doubled to excellent effect as Cadmus, Semele's father, and the gross, dozy demigod Somnus.

Semele was brusquely trimmed. Probably no one had faith in the patience of Santa Fe's audiences; the difference between a shortened version like this one and a worthy, uncut one amounts to no more than some extra arias, after all, and a paying audience might be happy to get home earlier. At any rate, this *Semele* (conducted by John Nelson, crisply up-tempo) scored a vociferous success. It will surely have won more fans for Handelian opera, so in the medium run deep-dyed Handel fans can only benefit.

Arabella and *Semele* continue in the Santa Fé Opera repertoire until August 22.

Alastair Muir

Kathleen Turner: strong physical presence

Theatre / Antony Thorncroft

Exposing the snobs

The Chichester audience likes a nice drawing room comedy. Somerset Maugham's *Our Betters* is a nasty drawing room comedy. The title is doubly ironic – Maugham, a good hater, relentlessly exposes the snobbery, the cynicism and the downright dishonesty of the upper classes. He doubles the indictment by making the main characters rich American women who have swopped their family fortunes for European titles. It is up to the audience to decide who are the worse "Betters" – the corrupted heiresses, or the corrupting milords.

Lady George Grayston (Kathleen Turner) has a husband (unseen), a boorish protector Arthur Fenwick (Nigel Davanport), and enough money and wit to run a salon. She also has an itch for young men. Her little sister Bessie (Sheri Graubert) has arrived for the London Season. She is the future – will she be corrupted or retain her innocence?

Written in 1917, *Our Betters* is seldom revived. It is not surprising. The drawing room is fine in Simon Higlett's arts and crafts set; he also throws in a re-assuringly luxurious morning room (Stubbs on the wall).

But the comedy is sub-Wildean aphorisms, too bitter to amuse. Maugham likes the line "the future is everybody's property" so much he repeats it, but it hardly amounts to much.

Perhaps sadly we have grown out of the age when hissed pleas of "don't be a fool" and impassioned cries of "you slut" sent frissons through a West End audience, and had the Lord Chamberlain, the censor of the day, shaking his head. *Our Betters* falls somewhere between passion and parody.

Michael Rudman directs the first act so slowly that it takes ages to work out what the play is about. He manages a nicely dramatic second act climax, with the house party playing poker while Lady George plays for higher stakes with young Anthony (Stephen Billington) in the tea house-cum garden shed.

Only in the third act, with accusations, justifications and betrayals coming fast and furious, can the audience enjoy the action. There is solid work from the supporting cast, especially from Rula Lenska as the fading beauty prepared to fall to any depths to keep her Tony, and from William Hootkins as the American roué who can out snob the English.

Kathleen Turner is still finding the switch from Hollywood Queen to jobbing actress tricky. She is not totally at ease in the pivotal role, and switches from slow movement, which slackens the action, to rushed stabs at the dialogue. Only near the end, when she uses her undoubted physical presence to keep her house party intact, does she flow freely.

This is old-fashioned theatre.

In repertoire at the Chichester Festival Theatre until September 27.

INTERNATIONAL ARTS GUIDE

■ EDINBURGH

DANCE
Edinburgh International Festival
Tel: 44-131-473 2000
● San Francisco Ballet: programme of two works by Balanchine – Stravinsky Violin Concerto and Symphony in C – and Helgi Tomasson's *Sonata*, set to music by Rachmaninov; with the Royal Scottish National Orchestra conducted by Emil de Cou; at the Edinburgh Playhouse; Aug 19
● San Francisco Ballet: second programme opens with *Drink To Me Only With Thine Eyes* by Mark Morris to music by Virgil Thomson, followed by *The Dance House* by David Bintley, to music to Shostakovich and *Criss-Cross* by Helgi Tomasson to music by Scarlatti and Schoenberg; Aug 20

OPERA
● Ariadne auf Naxos: by Richard Strauss. This Scottish Opera production, directed by Martin Duncan and conducted by Richard Armstrong, provides an unusual opportunity to see the opera in the context originally conceived for it: as an operatic divertissement, to be performed in a version of Molière's play *Le Bourgeois Gentilhomme*. The play is performed in English in a translation by Jeremy Sams; at the Edinburgh Festival Theatre; Aug 20
● La Verbena de la Paloma (The Festival of the Dove): music by Tomás Bréton (1894), text by Ricardo de la Vega. Performed in Spanish with English supertitles, in a production directed by Calixto Bieito. With the Scottish Chamber Orchestra, conducted by Miguel Roa; at the King's Theatre; Aug 18, 19

■ LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● BBC Scottish Symphony Orchestra: conducted by Osmo Vänskä in works by Glinka, Tchaikovsky, Edward McGuire and Shostakovich. With piano soloist Grigory Sokolov and highland bagpipe player Robert Wallace; Aug 18
● BBC Scottish Symphony Orchestra and the Helsinki University Male Chorus conducted by Osmo Vänskä in works by Sibelius. Including the London premiere of newly rediscovered tone-poem *The Wood Nymph*, with soprano Kirsi Tiihonen and baritone Jukka Rasilainen; Aug 20
● London Sinfonietta: conducted by Markus Stenz in a programme of pieces billed as 1990s classics: Oliver Knussen's *Two Organa*, Simon Bainbridge's *Landscape and Memory*, Sir Harrison Birtwistle's *Ritual Fragment*, George Benjamin's *Three Inventions* and Thomas Adès' *Living Toys*. With horn soloist Michael Thompson; Aug 19
● Orchestra of the Age of Enlightenment and Choir of the Enlightenment conducted by Mark Elder in works by Beethoven, Mendelssohn and Berlioz. All three works were conducted by featured composer-conductor Brahms in Vienna in 1873-4; Aug 19

■ LUCERNE

CONCERTS
International Festival of Music
Tel: 41-41-210 3080
● *András Schiff*: recital of Schubert piano sonatas; at the Union; Aug 19
● Baritone Oliver Widmer: performs works by Schubert, accompanied by András Schiff; at the Union; Aug 20
● Royal Philharmonic Orchestra: conducted by Carl Davis in a programme including Tchaikovsky's 1812 Overture and popular film themes; at the von-Moos-Stahl-Halle; Aug 20

■ PESARO

Rossini Opera Festival
Tel: 39-721-33184
CONCERT
Rossini's Petite Messe Solennelle: performed by soprano Carmela Remigio, contralto Mariana Pentcheva, tenor Juan Diego Florez and bass Michele Pertusi. With pianists Arnold Bosman and Rosetta Cucchi, and Federica Iannella on harmonium; at the Teatro Rossini; Aug 19

OPERA
● Il Barbiere di Siviglia: in a staging by Luigi Squarzina. With the Ort-Orchestra of Tuscany, conducted by Yves Abel; at the Teatro Rossini; Aug 20
● Il Signor Bruschino: directed by Roberto de Simone. With the Ort-Orchestra of Tuscany conducted by Corrado Rovaris; at the Auditorium Pedrotti; Aug 18

■ SALZBURG

Salzburg Festival
Tel: 43-662-844501
OPERA
● Die Entführung aus dem Serail: by Mozart. New production. Conducted by Mark Minkowski and directed by François Abou Salem with designs by Francine Gaspar. With the Mozart Orchestra Salzburg and the Konzertvereinigung Wiener Staatsopernchor; at the Residenzhof; Aug 19
● Die Zauberflöte: by Mozart. Christoph von Dohnányi conducts a new production by Achim Freyer. With the Vienna Philharmonic and the Konzertvereinigung Wiener Staatsopernchor; at the Felsenreitschule; Aug 18, 20
● Le Grand Macabre: by Ligeti. New production conducted by Esa-Pekka Salonen and directed by Peter Sellars. Cast includes Willard White. With the Philharmonia Orchestra and the Konzertvereinigung Wiener Staatsopernchor. Co-production with the Théâtre du Châtelet; at the Grosses Festspielhaus; Aug 20
● *Pelléas et Mélisande*: by Debussy. New production conducted by Sylvain Cambreling and directed by Robert Wilson, with a cast including Dawn Upshaw. With the Philharmonia Orchestra and the Konzertvereinigung Wiener Staatsopernchor; at the Grosses Festspielhaus; Aug 18
● Wozzeck: by Berg. Conducted by Claudio Abbado in a new production directed by Peter Stein, with sets by Stefan Mayer. Bryn Terfel sings the title role. With the Vienna Philharmonic and the Konzertvereinigung Wiener Staatsopernchor; at the Grosses Festspielhaus; Aug 19

THEATRE
Der Alpenkönig und der Menschenfeind: by Ferdinand Raimund. Revival of Peter Stein's production, with sets by Ferdinand Wögerbauer. With music by Wenzel Müller; at the Landestheater; Aug 20

■ SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
● *Così Fan Tutte*: Kenneth Montgomery conducts Mozart's opera, sung in English, in a new production directed by Nicolette Molnar and designed by Bruno Schwengl.; Aug 20
● La Traviata: Linda Brovsky directs this new production of Verdi's opera, set in the Parisian demimonde. Christopher Larkin conducts; Aug 19

■ VERONA

OPERA
Arena di Verona
Tel: 39-45-800 5151
● Aida: by Verdi. Conducted by Nello Santi; Aug 20
● Rigoletto: by Verdi. Conducted by Nello Santi in a revival of Lotfi Mansouri's staging; Aug 19

■ VIENNA

EXHIBITIONS
KunstHausWien
Tel: 43-1-7120495
Schmidt-Rottluff: comprehensive exhibition of the work of German expressionist Karl Schmidt-Rottluff (1884-1976); comprises around 180 works, including paintings, drawings, and woodcuts; to Aug 24

■ WASHINGTON

DANCE
Wolf Trap Tel: 1-703-218 6500
Tharp!: programme of new works presented by Twyla Tharp's new dance troupe; Aug 18, 19

EXHIBITIONS
National Gallery of Art
Tel: 1-202-737 4215
Sculpture of Angkor and Ancient Cambodia: Millennium of Glory. Around 100 works dating from 6th-16th centuries make up this exhibition of Khmer sculpture, the first of its kind in the US. Previously seen in Paris, the show will travel to Japan; to Sep 28

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Squawk Box

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European Money Wheel

18.00
Financial Times Business Tonight

هكذامن الأجل

COMMENT & ANALYSIS

First signs of a thaw

The French government may be friendlier to business than expected, says **David Owen**

How worried should businessmen and investors be at the prospect of nearly five more years of Socialist-led government in France? The answer may be: not quite as much as they are.

As executives return from the long weekend, many are apprehensive about the government. After less than 80 days in office, Lionel Jospin, the prime minister, has imposed an inflation-busting rise in the minimum wage, raised corporation tax to 40 per cent-plus, and in effect postponed privatisations that could have kick-started European defence restructuring and generated tens of billions of francs for the French exchequer.

There may be worse to come. Business people know the government has hardly started to fulfil its pledge to create 700,000 jobs and cut the working week from 39 hours to 35 without loss of pay. Nor will they have been encouraged by suggestions by Dominique Strauss-Kahn, the finance and industry minister, that redistribnting wealth from companies to employees might be a way of encouraging a consumption-led recovery.

This threatens to erode the few competitive advantages French companies have enjoyed over rivals in the rest of Europe. Eric Chaney, economist with Morgan Stanley in Paris, pinpoints two: low unit labour costs, compared with Germany, Belgium and others; and low corporation tax.

The second advantage, he says, has been lost, while the longevity of the first will depend on how the cut in working hours is implemented. If it is "badly done", he warns, this first advantage will also disappear.

The government's early record may have dismayed business-minded observers, but it should not have surprised them. Mr Jospin's Socialist manifesto, after all, contained a promise to reject *le capitalisme dur*, or hard capitalism. He depends on 38 Communist MPs for his National Assembly majority. His government includes three Communist ministers.

And yet, almost by stealth, signs have started to emerge that the government may be friendlier to business and private investors than is generally thought. Indeed, in one recent episode – the row over a nickel concession in New Caledonia belonging to the Eramet mining company – the present government's stance was markedly more friendly than that of the previous centre-right, supposedly pro-business administration.

Reuters

Lionel Jospin: edging towards a more pragmatic line?

The government of Alain Juppé, the previous prime minister, planned to dispossess Eramet, a partly privatised company, of its Koniambo concession and give it to a company controlled by Kanak nationalists in the French overseas territory. New Caledonia faces a referendum on whether to separate entirely from France next year.

But Mr Jospin quickly signalled a different line by ordering a study on the issue. Then last month, institutional investors were left to celebrate a substantial victory: measures reinforcing Eramet's independence from its state-owned majority shareholder were approved at the group's Paris annual meeting.

This raises the question of why Erap, the state holding company that owns 55 per cent of Eramet, would have consented to such measures when it had the voting power to block them. The most plausible explanation is that the government decided it could not afford to alienate institutional investors who had bought shares in the company when it was floated in 1994.

And why this solicitude for these agents of *le capitalisme dur*? One interpretation is that the government may be edging towards a more pragmatic line on privatisation and thinks it might need the institutions' backing for future flotations.

There has been further evidence to support this interpretation. The government has cleared the way for one sell-off – that of GAN, the insurance group – announcing it would not call into question commitments given to the European Union by Mr Juppé's administration. It has indicated it will allow its stake in Thomson-CSF, the defence electronics group, to fall below 50 per cent, less than a week after it had cancelled the full privatisation of the 58 per cent state-owned company launched by Mr Juppé.

Meanwhile, supporters in Mr Jospin's government of the partial privatisation of France Télécom were reassured by a speech by the prime minister in which he drew a distinction between "pnblic services" and "the public sector". A former minister was recently appointed to lead discussions on labour issues at the company, in apparent fulfilment of a campaign pledge by Mr Jospin to ask staff whether they supported an opening of its capital to private investors.

By contrast, the government has made clear that Thomson Multimedia, the consumer electronics group, will not be privatised and hinted strongly that Aérospatiale, the aircraft, space and defence group, will stay in the public sector.

On the tax front, Mr Strauss-Kahn has disclosed that the government is considering plans to waive the latest increase in corporation tax for companies that give undertakings on investment and job creation, as well as measures to promote small business creation.

"We need to stop the haemorrhage of creators of companies, in all areas of high tech, notably towards tha US," he says. "It is very important that we put in place instruments that will allow those who want to develop this sort of activity to do it in France."

As for the working hours plan, Mr Strauss-Kahn believes companies' fears are exaggerated. "The electoral campaign focused on alogans," he said. "But the greatest part of lower working hours has come from earlier retirement, greater time in education, paid holidays and so on. A rednction in daily hours is not the most important."

This may be so, but the Patronat, the French employers' federation, is reserving judgment on the government's business credentials until after the 1998 budget, due on September 24. "The state must make the same management efforts as companies in dealing with their own affairs," it says. "It must make clear-cut reductions in its expenditure."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Ending of Palestinian terrorism in Israel has no price attached

From Ms Helen Davis.

Sir, I was astonished by your conclusion that a price should be attached to the cessation of Palestinian terrorism in Israel ("Even hands in the Middle East", August 11). Madeleine Albright, the US secretary of state, made the point – correctly, I believe – that terrorism is, in and of itself, an unqualified, unmitigated evil which has no place in any diplomatic process.

Your assertion that Yassir Arafat, the Palestinian leader, can co-operate effectively on security issues only if Israel stops "handing ammunition to his opponents" is not borne out by the facts, which show that the most intense spasms of Palestinian terrorism have accompanied periods of the most vigorous progress in the peace process.

During the former Labour administrations of Yitzhak Rabin and Shimon Peres, for example, the average annual death toll among Israeli civilians from acts of terrorism was 80, three times the 27 terrorist-related Israeli deaths during the first year of Benjamin Netanyahu's Likud government.

Tha latest suicide bombings in the Jerusalem market came immediately after an agreement on the resumption of Israeli-Palestinian negotiations.

You contend that the most recent bombing was in response to Israel's settlement activity. Others disagree. Amr Moussa, Egypt's foreign minister, ascribed it to Palestinian frustration with the slow progress of the peace process; Radio Damascus said it was a protest against Israel's presence in South Lebanon; and a Hamas activist said that when all other excuses had run out, suicide bombers would continue attacking Israel as a demonstration against homelessness in Washington.

Make no mistake: Israeli governments will not hand over territorial assets if this serves to increase the vulnerability, rather than enhance the security, of the Israeli population. But evidence that Mr Arafat is making serious efforts to root out violence from the Palestinian political culture will, based on precedent, produce a generous Israeli partner at the negotiating table.

In that sense, one might conclude, security is not a negotiable instrument: it is as much a Palestinian need as an Israeli imperative.

Helen Davis,
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Angola needs dialogue, not histrionics

From Mr Anibal Kandeya.

Sir, Mr Boh Hoghes and others (Letters, July 30) propose that the United Nations should pass a further set of sanctions against the National Union for the Total Independence of Angola (Unita) for allegedly not complying with the peace agreement.

The present crisis in Angola, which hints at a possible return to war, is a result of the ebullience within the government forces after they helped overthrow the Mobutu regime in the former Zaire. As soon as Kinshasa fell, Angolan military figures were telling members of the international press they would soon turn on Unita. This went against the spirit of national reconciliation which had guaranteed the longest period of peace in Angola since 1961, when nationalists took up arms against the Portuguese. An onslaught on Unita was also going to affect the notable progress that had already been made in the peace process: creating the government of national unity, ingressing Unita generals into an integrated army, sending Unita deputies to join the National Assembly.

Mr Hughes and his colleagues suggest that Unita has been obstructing extension of state administration. This assertion does not fit the truth. The glitches in bringing the national territory under government control – a process which was being carried out between Unita and the competent government authorities – emerged only after the government began to see it as a process of conquest. The talk soon became of subduing Unita. This militarist sentiment has been echoed by several senior MPLA figures. Indeed, as General Phillip Sibanda, the UN commander, has pointed out, the Angolan government's aggressive stances are in part to blame for the present crisis.

The assertion that Unita offices are part of some international arms trade is so baseless that not even the government propaganda machine – which specialises in demonising the Angolan opposition – has suggested it. The solution to the Angolan problem lies in continued dialogue, not in histrionics to score minor diplomatic points.

Anibal Kandeya,
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Intriguing for indices

From Mr M. L. Ingall.

Sir, Lex (August 13) advocates the adoption of a unified share capital for the Anglo-Dutch conglomerates. If one considers this in the context of Barry Riley's excellent article "UK funds are losers at the weighting game", which appeared on the same day, one is left with an intriguing question for the indices and those who track them.

If the Royal Dutch/Shell management was to choose the UK as its domicile, indexed funds would need to increase their holdings in the company by some 2.5 times.

If, however, it decided that the Netherlands was a more attractive domicile, such funds would be required to sell out of one of the UK's largest companies.

Similar although smaller gyrations would take place in Unilever and Reed/Elsevier if they decided to follow suit. Those whose investment decisions are driven more by mathematical formulae than statistical analysis might ponder these possible consequences.

M. L. Ingall,
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Winterthur

From Mr Jurg Spiller.

Sir, Lex states ("Winterthur wed", August 12) that Winterthur has "unprofitable US and reinsurance arms". We would like to point out that our US and reinsurance operations are profitable.

Jurg Spiller,
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Winterthur,
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Personal View · **Suliman Olayan**

A chorus for statehood

It is time for the Palestinians to declare their independence unilaterally

It is said that even out of tragedy, like the recent deplorable suicide bombings in the Jerusalem marketplace, some good always comes. Sure enough, the Middle East peace process is stirring again.

The policy address on August 6 by Madeleina Albright, US secretary of state, has reinvigorated the process. I welcomed it because it seemed more than just another limp attempt to get beyond the latest grim episode of violence.

I applauded it because it called for accelerated movement toward resolution of the substantive issues, fully backed by the power of the office of the president of the United States. That used to mean a great deal to us in the Middle East. In spite of frequent disappointment over many years, and mounting disappointment of late, it still does.

Nevertheless, there is cause for deep concern. I hope this US initiative will have sufficient thrust to propel the process forward toward a final, comprehensive, lasting, just solution. But I have my doubts.

The secretary of state stressed that Israel and the Palestinians must reaffirm their commitment to partnership. Fair enough, but let us harbour no illusions that they are equal partners. Enormous responsibility bas been placed upon the Palestinian Authority, which, in the present scheme of things, is nothing more than a quasi-autonomous agency.

The Palestinian Authority is expected to govern an impoverished people living in fractured and often isolated groups. It is expected to deliver social services, build an infrastructure, develop civil institutions, boost the economy. Most of all, it is expected to search out, arrest and prosecute terrorists in its midst. The authority has the wherewithal to do none of these things.

However deplorable, however unconscionable, political terror has deep roots. It does not come from nowhere. It springs from diabolical soil, fertilised over time by repeated trauma. Never in the history of mankind has any elected bead of state been able entirely to eradicate terrorism and crime. How can one expect the Palestinian Authority to accomplish this almost impossible task?

In Palestine, the roots of dire discontent from which terrorism springs are three decades of unremitting occupation, in which a state-sponsored effort was made systematically to deprive the Palestinian people of their liberty and their livelihoods.

Since 1967, the Israeli government has sown the following in the soil of Palestine: more than 2,000 killings of unarmed Palestinians; more than 350,000 injuries needing medical attention inflicted by Israeli security forces: Palestinian lands confiscated or otherwise lost; more than 250,000 fruit trees uprooted: virtually all water rights lost: more than 2,000 individual homes sealed or demolished; more than 19,000 homes collectively demolished in Gaza in the 1970s; more than 700,000 Palestinians transferred or expelled; the construction of 175 Israeli settlements in the West Bank and Gaza; and countless documented incidents of torture, harassment and numerous other indignities.

Since the peace process, the situation has severely worsened for the Palestinian people. Gross domestic product is reportedly down 38 per cent since the Palestinian Authority took over three years ago, unemployment is soaring, and annual per-capita income is now less than $1,000. The reason is not inefficiency or alleged corruption. The reason is repeated Israeli border closings, depriving Palestinians of their livelihood, followed by the recent closures, urban blockades and a freeze on millions of dollars owed to the Palestinian Authority.

> The collapse of the peace process poses grave dangers not just for Israel and Palestine, but for the entire region and the world

The siege has cost the Palestinians $9m a day. Maher Al-Masri, the Palestinian minister of trade and economy, has described the effect of the collective punishment: "There is no foreign trade, tens of thousands of workers are being kept from their jobs, industrial production has stopped, the agricultural sector is paralysed, and transportation has been halted. Tha result is total collapse."

The Palestinian Authority, an elected council, has "control" over a tiny fraction of Palestine, but the Palestinians have no authority over their own destiny. All the strings, especially the purse strings, are being pulled by others, namely the chief antagonist, thair occupier. What can be done? Where do we go from here?

Without realising it, Benjamin Netanyahu, Israel's prime minister, may have given us the answer. In the wake of the bombings, he said he would not lift the latest round of sanctions until the Palestinians did more to earn "a ticket to the club of organised and civilised communities". He likened the sanctions to those against the nations of Libya, Iran and Iraq. Aside from the condescending paternalism in his words, Mr Netanyahu begs the larger issue. What is the ticket?

The ticket to human decency is freedom and responsibility. The Palestinians shoulder heavy responsibilities with no sovereignty over self, soil or nation and certainly no freedom. Without freedom there is no dignity. Without dignity there can be no decency.

No one, least of all Israel, is giving the Palestinians the ticket. So now they mnst take it themselves. The time has come for the Palestinians to declare their independence unilaterally. That would immediately remove a main subject from the agenda of the Final Status talks. Let us dispense now with all the veiled rhetoric about Final Status. Nationhood should not be negotiable for the long-suffering Palestinian people. Self-determination is not a carrot. It is not a technical issue about "entities". In this century, no one should know that better than Israel.

There is a growing chorus calling unequivocally for Palestinian statehood. The voices are not just coming from the Arab world, the European Community and Asia. They also belong to the likes of Henry Kissinger and Professor Moshe Ma'oz of Hebrew University in Jerusalem. A much-publicised poll conducted just before the Jerusalem suicide bombings revealed that a majority of Israelis support statehood for the Palastinians as well.

I last wrota about this issue in November 1993, soon after the signing of the Oslo accords. I argued that, if the accords led to the liberation of a generation of both Palestinians and Israelis for productive rather than destructive enterprise, then peace in the Middle East might stand a chance.

I took the view that could happen only if each stood equal and independent, free of the debilitating relationship between occupier and occupied. Short of that, there would be no comprehensive peace. But if that were fulfilled, then the Middle East could be on the threshold of a new Golden Age.

I stand by that view. The collapse of the peace process poses grave dangers not just for Israel and Palestine, but the entire region and the world, particularly the industrialised nations whose vital interests are so bound up in our geography. Let us then dispense with all the background chatter and extraneous noise. Let the chorus for statehood sing forth.

The author is founder and chairman of the Saudi-based Olayan Group

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FINANCIAL TIMES
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Cigarette settlement

Though discussions between the tobacco companies and the US government are on hold while Bill Clinton, US president, is on holiday, the shape of a likely deal is clear.

To get the president's agreement to the proposed settlement of smoking health claims, the tobacco companies will have to make further concessions, especially on the Food and Drug Administration's ability to regulate nicotine levels. Mr Clinton will benefit from an apparent political victory; the tobacco companies from terms which remain attractive, as the relative strength of their shares indicates. The benefits for the US public are less obvious.

Under the proposed agreement, which may still be some months from completion, the tobacco companies pay $368bn into a settlement fund over the next 25 years. This would largely be paid out to state governments to cover smoking-related health costs, and to individual smokers who have sued for damages. In return, the companies would be granted indemnity from future court action.

Though the courts have so far been reluctant to find in favour of smoking victims, this tide might turn in future. By agreeing the deal, the tobacco companies insure themselves against unquantifiable future costs. And the money for the settlement would come from a duty paid by future smokers, rather than from the companies and their shareholders directly.

There may be more effective ways of tackling the smoking issue. The chief aim of public policy must be to reduce – and eventually end – smoking not through prohibition but rather through the combination of higher prices and marketing restrictions. The price increase stemming from the proposed dnty could be achieved by a more straightforward tax rise. Recent increases notwithstanding, cigarette taxes in the US are lower than in most European countries.

Similarly, the curbs on advertising and marketing, though welcome, could be achieved through legislation rather than through a bargain with the tobacco companies. Eliminating future litigation will deliver public benefits by reducing pressure on the courts, and ensuring speedier and more certain payouts to smoking victims. But these may not be enough to justify the granting of such a sweeping immunity.

More obvious are the advantages for the states that receive the lion's share of the pay-out, and the lawyers who negotiated the deal and are assured of millions of dollars in fees if it goes through. For Mr Clinton the political capital to be gained from an apparent victory over the tobacco industry may be too tempting to resist. Congress, which will have to enshrine the deal in legislation, should take a more sceptical approach.

Asia's money

Indonesia's decision to let the rupiah slide is a rude reminder that the Asian currency crisis has not gone away in spite of the $16bn rescue package for Thailand. With the ringgit and equities also under pressure in Malaysia, it is becoming harder for the region's leaders to claim their problem is at most one of temporary cyclical weakness.

The message from the markets is that there are some serious flaws in Asian economies. Ultimately governments can only protect themselves from repeated onslaught if they deal with the structural weaknesses the speculators have identified.

Only part of Asia's trouble is really due to outside factors. Its governments are not to blame for weak western demand for electronic goods which prompted last year's export slowdown. They are caught unhappily in the gyrations of the dollar and the yen against which their currencies had appreciated.

But they have also made themselves vulnerable by internal inconsistencies in economic policy. The fate of the rupiah was sealed when Indonesia tried 10 days ago to cut interest rates amid concerns about the health of smaller domestic banks. That was not compatible with a managed exchange rate, however flexible the regime.

One of the enduring lessons of the present crisis is that the days when exports could be promoted by holding the exchange rate down are gone. Freedom of capital movements means Asian countries are paying a heavy price for not allowing their currencies to appreciate in the boom period of 1994 and 1995. That boom has given way to painful bust.

A more balanced approach to growth is called for, in which exports are not the only locomotive. In the long run a monetary policy targeted towards domestic price and credit stability is better for business than an artificial exchange rate target.

Hand in hand with that must go a well supervised banking system able to act as an efficient intermediary for savings. Properly regulated utilities must provide infrastructure at reasonable cost. The education service must rise to the challenge of upgrading skills, a point that is now worrying both Malaysia and Thailand.

For now, governments may have no choice but to allow their currencies to overshoot so that interest rates can fall again. The worry is that this may take some time, during which banking and property strains could intensify.

Equity markets are bound to remain nervous, but it will be aome consolation if governments now tackle the structural weaknesses that have exposed their currencies to attack.

Iran's chance

Mohammed Khatami, Iran's new reformist president, faces a crucial test this week, when the majlis, or parliament, delivers its verdict on his cabinet list. Mr Khatami made pragmatic choices, nominating ministers from across Iran's political spectrum, but including allies who may deliver on the promise for a more tolerant Iran and more rational governance.

It would be a great pity for the 20m Iranians who voted for Mr Khatami in May if the majlis were to shoot down many of his nominees. It could also undermine the rising voices in the west calling for a more open and unified US-European policy towards Tehran.

Western officials were comforted last week by Mr Khatami's decision to replace the heads of the four key ministries: interior, intelligence (officially known as information), foreign affairs, and culture and Islamic guidance. Particularly welcomed was the departure of Ali Fallahian, the former head of intelligence named in the April Berlin court decision which found Tehran responsible for ordering the 1992 killings of Kurdish dissidents in a Berlin café. The decision led to a hardening of European Union policy towards Tehran and a suspension of the so-called "critical dialogue".

Mr Khatami is likely to face opposition from a conservative-dominated parliament on several appointments. The most obvious is the moderate cleric nominated to head the ministry of culture and Islamic guidance. Ataollah Mohajerani advocates greater cultural freedom and, if confirmed, would run an institution which has huge influence on the daily lives of Iranians. Some conservative parliament members have even criticised Kamal Kharazi, the foreign minister designate, on the grounds that the long-serving ambassador to the United Nations has rubbed too many American shoulders.

In a country where the president represents only one of several power centres – and not the most powerful one – Mr Khatami has tha difficult task of coexisting with and gradually exerting his influence over other levers of power. If most of Mr Khatami's nominees are confirmed – especially at the four key ministries – he would have won over some conservative members of parliament and established a degree of authority over the majlis.

Such an accomplishment is essential if Mr Khatami is to fulfil at least some of the Iranian voters' expectations. It will also send the message that Iran under Mr Khatami may follow less hardline and unpredictable policies. And that could encourage the US to review its policy of isolating Tehran.

Gerard Baker asks whether the cut in military expenditure has boosted the US economy as much as expected

The product of peace

Dana Marshall points proudly to his favourite piece of artwork on the wall of his office. It is a ship's drawing of the USS DeWayne T Williams, a troop carrier he designed 20 years ago in his days as a naval architect.

Mr Marshall does not build warships any more. After 15 years making military hardware, his services were no longer required by his employer, McDonnell Douglas, when the cold war ended in 1991.

With a group of other former McDonnell workers be set up Optronics. Using laser technology developed to guide smart bombs down Iraqi chimney stacks in the Gulf war, the St Louis-based company manufactures laser systems for civilian applications.

Mr Marshall's transformation from military engineer to successful civilian manufacturer is a familiar 1990s story. The end of the cold war brought a structural change in the US economy, as millions of jobs and billions of dollars in investment moved from military to peaceful activities.

Mr Marshall believes the peace dividend achieved as a result has been large. "The US is reaping a one-time benefit from the decline of military spending," he says. "Instead of spending on weapons, we're investing in productive capacity and improving our competitiveness."

In little more than a decade, the US government's spending on defence as a proportion of gross domestic product has almost halved, from 6.2 per cent in 1986 to an estimated 3.2 per cent next year, its lowest level since the second world war. In today's dollars that represents a reduction of about $100bn a year. More than 1m military jobs have been cut in that period. Related employment has fallen by as much as another 3m.

But what have the economic consequences of this huge demobilisation been? And has the US really enjoyed a peace dividend?

Many economists believe the shift in investment and jobs from military objectives towards more productive civilian expenditures has been a crucial factor in the US economic renaissance in the 1990s.

Lawrenca Klein, Nobel Prize-winning economist at the University of Pennsylvania, has studied the effects of the military downsizing over the past 10 years. "The evidence suggests that smaller military spending over time increases investment and consumption, and produces an important overall gain for the economy," he says.

But, in the past, the end of periods of international tension has often been associated with recession. The stimulus to domestic demand from the effort of war has typically been large and its removal can be traumatic.

The demobilisation of the cold war economy has been on a smaller scale than occurred at the end of either of the two world wars. But it still delivered a sharp blow to demand. Those regions of the US most immediately affected by military downsizing in the early 1990s suffered weaker growth as a result, while the nationwide recession of 1990-91 was exacerbated by the cuts.

Economists argue, however, that this demand-side effect of reduced military spending is short lived. It is soon replaced by benefits from lower-military spending, they say.

After a brief adjustment period, the end of wars in the past 150 years has generally halted inflation, according to Edward Yardeni, chief economist at Deutsche Morgan Grenfell, the investment bank. War tends to be inflationary: peace leads to falling prices, he says.

The reason for this, argues Mr Yardeni, is that reduced tensions usually promote international trade, as economic relations between former enemies are returned to normal. Competition in trade lowers prices.

"The lifting of the iron curtain, the destruction of the Berlin wall and the collapse of Soviet imperial communism all simultaneously heralded the elimination of the world's greatest barrier to trade," he says.

Since the end of the cold war, world trade has indeed mushroomed: its total value has increased by more than 70 per cent since 1989, according to the International Monetary Fund.

But it is hard to see the supposed causal relationship. Most of the increase has occurred between the US, Asia and western Europe, and has been fostered by faster growth, especially in Asia, and by the elimination of trade barriers through multilateral agreements. The opening up of trade between the US and former Warsaw pact and related countries has been negligible.

Similarly, within the US itself, the gains made from reduced military spending seem slight at first glance. When the idea of a peace dividend was initially mooted at the end of the 1980s, there was much hope that lower defence spending would give federal and state governments the chance to spend more on domestic social programmes, such as housing, education and health.

In reality, there has been no significant transfer of resources by the public sector. Social spending – excluding entitlements such as social security and public medical insurance – has been roughly stable in real terms since the end of the cold war.

But this does not mean there has been no peace divideod. Lower military spending has been positive in one critical way: it has been a big factor in all but eliminating the US budget deficit in the past decade. While the other main categories of spending – health, education and benefits – all doubled in nominal terms between 1989 and this year, defence spending fell by more than 15 per cent. Over the same period, the federal deficit fell from $220bn to less than $50bn.

This represents an enormous fiscal benefit, according to Mr Klein. Lower government borrowing has reduced interest rates below what they would otherwise have been, a factor that has been critical in helping the US economy maintain its expansion.

"The main part of the peace dividend has come in the money market," he says. "The declining public deficit has brought down interest rates. And the recovery goes on."

The reduction in federal spending has been indirectly taken up by the private sector. When military-related jobs have been lost, closures have followed. But in relatively short time the private civilian sector has been able to pick up the slack.

This "passive" conversion from defence to civilian spending is not easily quantifiable, but in a near fully employed economy it seems the shift has been worth at least as much as the reduction in real terms in military spending. The overall benefit may ultimately prove much higher.

That is because non-defence investment tends to be much more productive for the economy as a whole in the long run. "Once you blow up a tank or missile, it's gone. It does not produce a stream of output in the way that civilian expenditures do," says Mr Klein.

Large military programmes have been notoriously inefficient. Contracts awarded by the Pentagon for new war aircraft or missiles are typically on a cost-plus basis, where value for money is less important than the aim of perfecting hardware. With private sector civilian expenditure, on the other hand, investment is less wasteful, earning a higher rate of return on capital.

"The strong increase in overall private sector research and development in 1995-96 was a delayed reaction to the end of the cold war," says Greg Bishak, a member of the board of the National Commission for Economic Conversion and Disarmament in Washington.

As well as gains, some argue, there may have been some losses caused by the shift from defence spending. One aspect suspected of detracting from overall economic performance is the end of the so-called spin-off effect. Investments in hardware intended for military use produced civilian spin-offs, perhaps most notably the Boeing 707 which grew out of a military project.

But most economists argue that this can be exaggerated. "Military needs are now too specialised to have much of a spin-off benefit," says Lawrence Korb, a defence economist with the Brookings Institution in Washington. "It was clear the civilian sector had a use for the 707, but who wants a Stealth Bomber other than the military?"

The gains from spin-off are probably eclipsed by the "spin-on" benefits that work the other way – high technology developed in the civilian sector that finds applications in the military. "Until the 1980s, the value of military research and development exceeded civilian R&D," says Murray Weidenbaum, a chairman of the Council of Economic Advisers in the early 1980s. "Now it's the other way round."

Overall, the precise impact of the decline in defence spending is difficult to gauge. But the combined effects of the fiscal dividend on lower interest rates, a transfer of investment to civilian uses and increased efficiencies have not been negligible.

The verdict of recent economic research is that, after the initial fall in demand as a result of defence cuts, in the medium term GDP may have been lifted by as much as 0.4 per cent a year. That amounts to an annual $300bn in the US alone.

And assuming the adjustment from war to peace continues as it has in the past decade, such gains will only get larger.

EPA

Goodbye to all that: in spite of the celebrations of US air force graduates, military spending has been cnt

· OBSERVER ·

Thaksin question

■ Only Thaksin Shinwatra and the fortune tellers he likes to consult know what the policeman turned telecommunications tycoon turned politician is up to in accepting the post of Thailand'a sixth deputy prime minister in the latest cabinet reshuffle.

Thaksin was once the darling of Bangkok: as leader of the grass-roots religious Moral Force party he typified middle-class aspirations for honesty and vision in government. As deputy premier last year he became Bangkok's "traffic tsar", making the ridiculous pledge to end gridlock in the capital, even if it meant sending in helicopters to lift stranded cars. It all came to nothing and his party was almost wiped out at the general election.

The ebb in his popularity has been matched by his financial fortunes: the stock market collapse in Thailand is believed to have reduced his paper value by three-quarters. But he still has a plenty of dough and could probably afford to give his ministerial colleagues Daimlers, as he has done in the past.

It's hard to see what Prime Minister Chavalit gets from Thaksin beyond cash and a little of his fading popularity. The gain for Thaksin looks even less: he risks being portrayed as an opportunist using his money to get a top political position. But Thaksin has many chances to redeem himself, especially if he helps to push the country's new constitution through parliament – that'a the new constitution which is supposed to lessen the role of money in Thai politics.

Village voices

■ Could the tiny village of Saint-Martin-d'Oydes, south of Toulouse, enter the history books as the place where Britain's Tony Blair and France's Lionel Jospin lay the foundations for a better understanding?

The differences in the two prime ministers' political visions have been strikingly apparent ever since the European Socialists' Congress in Sweden in June, shortly after Jospin's upset general election victory.

The rather strait-laced French prime minister is expected to drop in on the Blair family's remote holiday retreat for an informal private lunch on Friday. Where better than the peaceful Ariège countryside for the two men to kick off their shoes and try to establish an *entente un peu plus cordiale* – perhaps toasting it with a glass or two of hypocras, a local tipple recommended by Renée Esquirol, whose family runs the village grocery shop?

Near myth

■ The presentation to staff of Rockwell's automotive components business, soon to be spun off from its parent, was, according to soon-to-be chief executive officer Larry Yost, an emotional affair, with "many tears in the eyes" of employees.

Maybe the cause of their emotion was the company's new name: Meritor, derived from the Latin *meritum*, which the dictionary defines as "service, kindness, due reward". Or maybe it was the new logo that had staff reaching for their hankies. It features a winged bull in flight which, says Yost, is a mythological creature symbolising values such as integrity, agility and strength. Pressed for the name of the mythological creature, he said it had just been dreamed up by the image consultants.

Call of duty

■ Turkey'a bureaucrats may yet succeed where the military has failed, by getting their hands on Abdullah Ocalan, public enemy number one.

Forty-eight-year-old Ocalan – boss of the Kurdistan Workers party which has been fighting a separatist war for 13 years – is holed up in Damascus and has survived more than one botched assassination attempt by the Turkish secret service. But he and his brother Osman, 43, have still not done their 18-month compulsory military service and they've now been told that if they don't report for duty at army headquarters soon they'll forfeit their Turkish citizenship.

Defence ministry pen pushers are not all that sure that the Ocalans will do the decent thing and sign up: the threat of separation from the state isn't likely to terrify the average separatist leader.

Selling point

■ Marketing executives of the Vietnam Economic Times, a joint venture English-language magazine for investors, recently came up with an authoritative-sounding slogan to boost their publication's subscriber base: "Who Knows Where Vietnam is Going? We Do."

Pleased, they submitted their efforts to the company for approval, but the communist authorities wouldn't have it. Apparently, bureaucrats thought the slogan implied that the ruling Communist party – which is racked with high-level indecision over the next stage of economic reforms – didn't know where Vietnam was heading.

The Financial Times

100 years ago

Norwegian Banking Hours

We do not know how salaries for bank clerks go in Norway, but as regards hours they seem to have a rather fine tima of it. The manager of one of the leading London Banks told us that when on his holiday in the land of the Midnight Sun he called at the office of his Bank's agents shortly after two o'clock in the afternoon and found the institution closed. Further enquiry elicited that 11 a.m. to 2 p.m. are the customary banking hours. If any Norwegian banker will send us particulars of any vacant positions in his office, with decent salaries attached to them, we will undertake to procure for him as many thoroughly competent clerks as he wants.

50 years ago

New British Aircraft

About 70 British aircraft will be on show at the eighth annual display of the Society of British Aircraft Constructors to be held at Radlett, Herts, from 9th to 17th September. Since last year's display, 27 new aircraft have been developed, and will be seen at Radlett next month. Already many acceptances have been received from representatives of the 49 countries invited to this year's display.

FINANCIAL TIMES
Monday August 18 1997

Hong Kong authorities on alert over threat to currency

Speculators are eyeing the territory, says John Ridding

Hoog Kong's financial authorities are on alert following signs that currency speculators are turning their attention towards the territory.

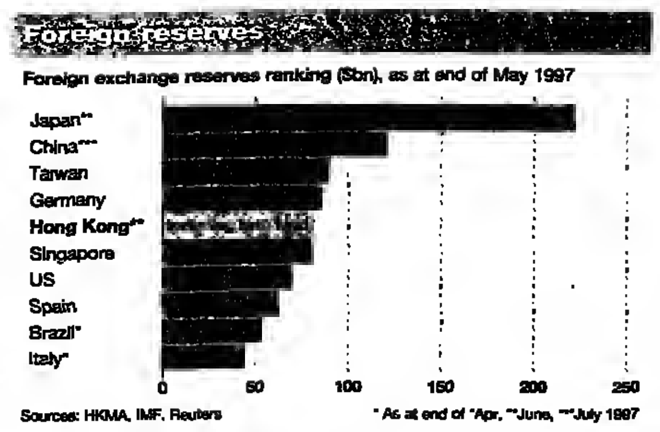
After currency turmoil and de facto depreciations across south-east Asia, the Hong Koog dollar stands alone in resisting the domino effect of falling currencies.

"The Hong Kong dollar is now the last currency to be linked to the [US dollar]," says the head of treasury at one European bank. "An assault is a very different proposition from an attack on the baht or the ringgit, but the signs are that some are willing to try."

Those signs were clear last Friday. Following selling pressure in Loodon and New York on Thursday, overnight interest rates reached 8 per cent – some 150 basis points higher than on Thursday – as investors demanded increased returns to offset currency risk.

Interbank rates rose to their highest levels since the 1995 Mexican peso crisis, the last significant test of the Hong Kong dollar peg.

That peg, introduced in 1983 at a rate of HK$7.80 to the US dollar, has become a pillar of Hoog Kong's economic policy. Staunchly defended by the territory's authorities, it is also backed by China, which regained sovereignty over the territory last month. Joseph Yam, head of the Hong Kong Monetary Authority, the de facto central bank, says the sacrifice of autonomy required by the peg is a small price to pay for currency stability.



Sources: HKMA, IMF, Reuters

* As at end of *Apr, **June, ***July 1997

The authorities' determination is backed by economic fundameotals and ammunition against speculators. While the economies of south-east Asia have been weakened by fading export performance, over-extended banks and foreign deht, Hong Kong's fundameotals are rohust. Its balance of payments current sccount is set to be in surplus this year and next, while bank balance sheets are healthy.

Although depreciation in the region could erode the competitive edge of Hong Kong exports, the territory's manufacturing sector now represents less than 10 per cent of GDP, having shifted production across the horder to China or to south-east Asia.

In addition to foreign exchange reserves of just under US$70hn, Hong Kong has been promised the backing of China's central bank in battles against speculators.

Dai Xianglong, governor of the People's Bank of China, has said the country's foreign reserves of more than US$120hn could be ussd to defend Hong Kong's currency.

Unlike the south-east Asian economies, there is a relatively small number of Hong Kong dollar market makers with large exposure to the currency. That increases the HKMA's control and reduces the incentive for banks to lend to speculators.

That all makes an assault on the Hong Kong dollar a tough proposition. But the most important factor will be whethsr confidence in the exchange rate system is maintained outside the money markets. The Hong Kong public has shown few qualms about the currency. Jan Lee, chief economist at Hongkong Bank sees little economic reason for that to change. "In the short and medium term the threat to the Hong Kong dollar is political, not economic," he says.

Others are less sanguins. "The dollar link is an oddity in today's markets and was always likely to be tested after the handover," says the head of treasury at one US bank. "The upheaval in the region has put Hong Kong in speculators' sights."

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THE LEX COLUMN

ITT's poison pills

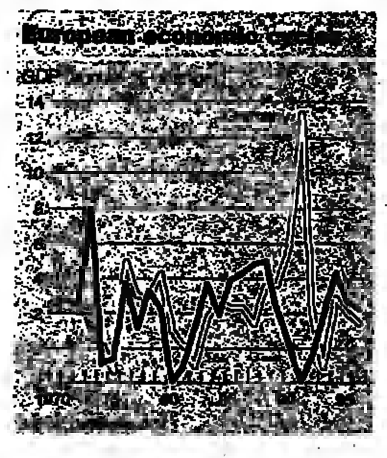
US investors have been impassioned advocates of good corporate governance, and strident critics of cosy deals stitched up hy European companies. Yet one of the biggest American bids of the year is set to be decided by a mechanism that would make the most shareholder-unfriendly European fat cat turn green with envy.

In theory, ITT shareholders must choose between a bid from Hilton Hotels at a 60 per cent premium to the pre-bid share price, or a corporate restructuring proposed by ITT. Except that ITT has structured its three-way break-up plan so that shareholders have to accept it. They get no say on the Hilton offer. Moreover, the new structure will create a $1.4bn tax bill for any subsequent bidder for the hotel and gaming business. Management has refused to have any discussions with Hilton, in spite of the synergies that a deal could create. And if shareholders resent what ITT boss Rand Araskog has done, they can no longer vote him out until 2000 because he has changed the rules.

In the US, poison pill protections are justified as a means of providing negotiating leverage when dealing with bidders. But ITT has used Nevada's friendly laws to prevent a bidder from getting anywhere near its shareholders. This makes a mockery of ITT'a justification to the courts for an initial six-month delay in Hilton's proxy battle – it said shareholders needed time to make an informed choice. Of course, ITT's demerger proposals may be hlocked in the courts. If not, the only informed choice investors can make about a management that considers shareholders' views irrelevant is to sell out.

Emu

Gordou Brown, the UK chancellor, has posed a seemingly hopeless conundrum. He is in favour of a European single currency in principle. And he has called for a national debate on whether the UK should join. Yet the conditions he has set for UK entry look vertiginously steep. That, at any rate, is Emu-sceptics' hopeful interpretation of Mr Brown's toughest criterion, that the UK and Continental economic cycles would need to be at "compatible" points before Britain could join. This looks an impossible test. The Continent's low interest rates, designed to put some fizz into sluggish France and Germany, would be precisely the wrong treatment for Britain's consumer hoomlet.



But look ahead to, say, 2000 and the position could be different. It remains a serious problem that the Continent is several years behind the UK in the cycle. But if policymakers really put their mind to it, a longer-than-usual UK cycle could give the recovering Continentals time to catch up. The US, after all, has enjoyed six years of robust growth – the "Goldilocks" scenario – with a few more expected. If ths UK could match that, joining Emu around the turn of the century would begin to look less academic.

Unfortunately, however, Britain's government shows little sign of the discipline needed to keep this option open. To be fair, operational independence for the Bank of England was a good start, but if the government were really serious about replicating the US success it would have heen hraver abont tightening fiscal policy in the recent Budget. As it is, the imbalance of policy and sterling's resulting strength remain big threats to a sustained "Goldilocks" phase.

Of course, sterling could still be tackled in other ways. There is the (distant) hope that the French and Germans could do their bit by improving the credibility of their planned new currency. Meanwhile, the Bank has had some success at talking sterling down. But to make a big difference, the government would need to announce that it planned to join Emn within the next few years. That would help considerably by removing sterling's "safe haven" cachet. The problem, needless to say, is that the government conspicuously lacks such a clear policy.

The danger in fence-sitting is serious. The option Mr Brown blithely assumes is open to him – Emu entry at or around 2001 – may close much earlier than he thinks. Of course, there is nothing to stop Britain joining when its cycle is out of sync – the apparent strategy of hares such as Spain and Ireland which are desperate to hop on to the Franco-German tortoise. But this is a potentially disastrous gamble. To retain a decent chance of responsible Emu-entry, Mr Brown needs to plan now to minimise the chances of a significant downturn in the UK cycle over the next few years.

Of that there is so far little sign. But this should not be a surprise. Mr Brown has a powerful reason *not* to strive to avert a recession in, say, 1999. Because he would then have to fret about the worse political danger – one closer to the 2002 general election.

UK Football

Football investment in Britain has heen a game of two halves. BSkyB's money for premier league television rights created a virtuous circle. It paid for stars, who pulled in more fans. These spent more money on merchandising, funding bigger stadiums which brought in yet more fans. But problems started with some own goals from clubs that came to the stock market with ill-formed strategies and lofty valuations. The 10 listed football clubs are now trading on average 29 per cent below their peak in early 1997.

The risks are numerous. If clubs get too greedy on merchandise sales and tickst prices, they will lose brand loyalty. And they will suffer more when the economy slows and fans feel less wealthy. Having raised fixed costs with expensive players and stadiums, clubs are ill-prepared for a downturn. Moreover, it is unwise to bank on much more inflation from the BSkyB television contract. The last contract was bid up by Carlton, an ITV company, whose digital television business will soon be ahls to transmit BSkyB's football matches anyway. It is unlikely to want to push up the price next time.

Fantasy football portfolios should therefore concentrate on clubs that can exploit brands internationally, succeed in European competition and reap the rewards of pay-per-view television, which should come nsxt season. Manchester United looks the only obvious champion. But its shares are unlikely to win out until the structure of pay-per-view television becomes clearer.

Success for Televisión Azteca IPO

$526m issue signals renewed investor confidence in Mexico

By Daniel Dombey in Mexico City

Televisión Azteca, the fast-growing Mexican media company, has successfully placed Mexico's biggest initial public offering since the 1994 peso devaluatioo, in spite of an outstanding legal dispute with NBC, the US television network.

On Friday, tbe company's American Depositary Shares ended their first day of trading at $19¾, up 5.14 per cent. More than half the $526m issue of 18.5 per ceot of the company's stock took place on the New York Stock Exchange, with the remainder being placed on ths Seaq and the Mexican market.

Investors flocked to the stock, entbused hy Mexico's economic fundamentals as well as hy the growth prospects of the company, which runs two nationwide television stations.

The issue signalled a resurgence of confidence in Mexico following the country's success since 1995 in generating high growth, while keeping inflation under control and refinancing debt at lower levels. Foreign investment has belped the Mexican stock exchange rise nearly 50 per cent so far this year in dollar terms.

"All of the major media players and all of the major emerging market investors got in. And we got global funds as well," said Julie Katzman, at Azteca's financial adviser, Violy, Byorum & Partners.

Soap operas and news shows with puppets for comic relief have helped Azteca prise away audience from Televisa, Mexico's dominant media company.

Azteca's sbare of the prime time viewing audience has risen from about 10 per cent when it was privatised four years ago, to a 37 per cent share today.

The issue was well received despite a decision last week hy Bear Stearns, the lead underwriter, to raise the offer price from the initial range of $15-$17 to $18¼. The higher price allowed Azteca to issue a smaller percentage of stock than originally planned.

The issne was also apparently unaffected hy a legal dispute between Azteca and NBC, which is claiming the equivaleot of at least $132.5m in fees, options and shares as part of a 1994 agreement to help Azteca with programming, advertising and technical issues.

NBC says Azteca failed to pay it $5.2m of $7m in advisory fees and told it there were no immediate plans for an IPO. As a result, NBC says, it decided in April to sell back options for 9 per cent of Azteca stock rather than waiting for the issue.

Televisión Azteca says the US network failed to meet its side of the agreement and has taken the case to arbitration at the Paris-based International Chamber of Commerce. The company says that, far from misleading NBC, it rushed through the IPO in a month.

The stock issue was not part of Azteca's long-term strategy hut primarily intended to allow minority shareholders a way out of the company after a lingering ownership dispute.

Cash register supplier sued over 'millennium bomb'

Continued from Page 1

out upset and embarrassed.

When the card zips through and the modem packs up, everybody looks at that one customer and says, 'Wow! What did she do?'.

"How would you like to have 300 people in your store and the cash registers don't work with a 10-hour day ahead of you?"

Mr Yarsike wants Tec-America to put in a replacement system. He speot $150,000 on the fleet of registers for his stores and says it would cost him another $35,000 for new new equipment.

Tec-America denied it was to blame for the shutdown of the cash registers.

It said responsihility lay with the credit card industry, which was forced several years ago to establish a format for swapping data that would recognise the year 2000.

The industry's efforts, however, were not completed until April.

FT WEATHER GUIDE

Europe today

North-east Italy, Austria and the northern Adriatic countries will be cloudy with heavy showers and thundsrstorms.

A front in western Norway will bring some cloud and rain, but much of Scandinavia will be fine and dry.

There will be thunderstorms in parts of central France, the Pyrenees and north eastern Spain. Otherwise, western Europe will be mostly sunny and dry.

Eastern Europe will have showers and sunshine, and it will stay cool.

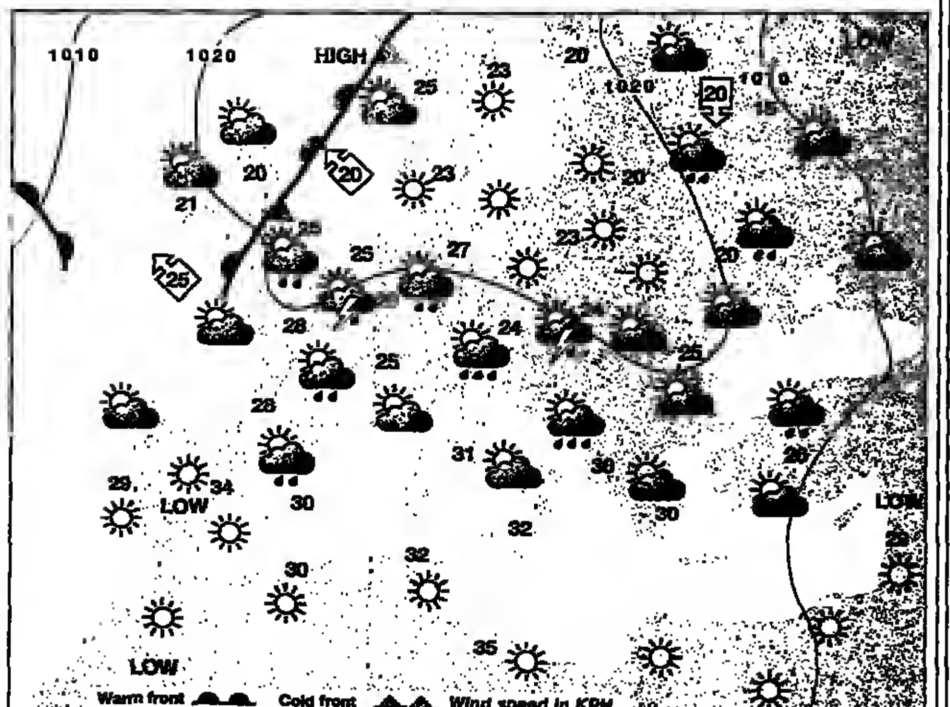
The Mediterranean will continue mostly hot and sunny.

Five-day forecast

The Adriatic countries will continue to be unsettled, with heavy showers and thunderstorms, although these will die out later in the week.

Finland and eastern Europe will have some showers and it will remain cool.

The rest of Europe and the Mediterranean will have a lot of dry and sunny weather.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

Maximum Celsius

Abu Dhabi	Sun 40	Beijing	Fair 32	Caracas	Sun 32	Faro	Fair 29	Madrid	Thunder 34	Rangoon	Rain 30
Accra	Cloudy 27	Belfast	Fair 23	Cardiff	Fair 23	Frankfurt	Fair 28	Majorca	Sun 30	Reykjavik	Rain 14
Algiers	Sun 31	Belgrade	Fair 25	Casablanca	Sun 25	Geneva	Fair 27	Malta	Sun 31	Rio	Cloudy 27
Amsterdam	Sun 28	Berlin	Sun 28	Chicago	Sun 22	Gibraltar	Fair 27	Manchester	Shower 24	Rome	Fair 81
Athens	Fair 30	Bermuda	Fair 30	Cologne	Fair 28	Glasgow	Fair 22	Manila	Thunder 32	S. Frsco	Fair 22
Atlanta	Thunder 34	Bogota	Fair 20	Dakar	Fair 32	Hamburg	Sun 26	Melbourne	Shower 13	Seoul	Rain 30
B. Aires	Shower 18	Bombay	Shower 32	Dallas	Fair 36	Helsinki	Sun 22	Mexico City	Fair 25	Singapore	Cloudy 32
B.Ham	Thunder 25	Brussels	Fair 28	Delhi	Shower 35	Hong Kong	Shower 31	Miami	Thunder 33	Stockholm	Sun 27
Bangkok	Cloudy 35	Budapest	Thunder 25	Dubai	Sun 42	Honolulu	Fair 32	Milan	Fair 25	Strasbourg	Fair 29
Barcelona	Fair 27	C.Hagen	Fair 28	Dublin	Fair 22	Istanbul	Fair 28	Montreal	Fair 23	Sydney	Fair 18
		Cairo	Sun 31	Dubrovnik	Fair 27	Jakarta	Fair 32	Moscow	Cloudy 15	Tangier	Fair 29
		Cape Town	Shower 19	Edinburgh	Cloudy 20	Jersey	Fair 21	Munich	Thunder 28	Tel Aviv	Fair 29
						Karachi	Cloudy 33	Nairobi	Sun 25	Tokyo	Rain 27
						Kuwait	Sun 43	Naples	Fair 29	Toronto	Sun 22
						L. Angeles	Fair 25	Nassau	Fair 32	Vancouver	Fair 22
						Las Palmas	Sun 28	New York	Rain 25	Venice	Thunder 25
						Lima	Cloudy 23	Nice	Fair 29	Vienna	Thunder 24
						Lisbon	Sun 29	Nicosia	Sun 32	Warsaw	Shower 23
						London	Thunder 28	Oslo	Fair 28	Washington	Thunder 32
						Lux.Bourg	Fair 27	Paris	Fair 29	Wellington	Shower 13
						Lyon	Fair 30	Perth	Fair 19	Winnipeg	Fair 22
						Madeira	Sun 27	Prague	Thunder 25	Zurich	Fair 24

FINANCIAL TIMES
COMPANIES & MARKETS
Monday August 18 1997
Week 34

IN BRIEF

Sibneft raises bond to $150m

Strong demand from investors led Sibneft, a leading Russian oil company, to increase the first Russian corporate eurobond from $125m to $150m. The Sibneft eurobond, which closed on Friday, was the first in a flood of Russian corporate debt issues expected to hit the international capital markets in the next few months. Page 17

Laura Ashley warning likely
A trading statement from Laura Ashley this week is likely to signal first-half losses after the UK clothing and home furnishings group took remedial action to alleviate excess stocks. The company is also expected to announce a slowing of its US expansion after disappointing trading, and further reductions in its garment workforce. Page 16

Packaging dream team
Last week's merger of Sealed Air and WR Grace's protective packaging business was, according to one analyst, "a combination that has been talked about and dreamed about for years". The deal creates a business that is by far the global leader in the market for protective and specialist packaging, with annual sales in excess of $2.5bn. Page 17

Sluggish Thai telecoms earnings
Advanced Info Service and Shinawatra Satellite, Thai telecommunications companies which are both part of the Shinawatra group of companies, reported sluggish half-year earnings. Advanced, Thailand's leading mobile phone network operator, said first-half net profit was Bt1.84bn ($5.7m), up 3.4 per cent compared to the same period last year. Second-quarter earnings were Bt927.9m, up 4.7 per cent on the comparable period. Page 16

Guinness setback for Harney
Ms Mary Harney, Ireland's new minister for enterprise, trade and employment, has been forced into an embarrassing climbdown after the Competition Authority said she did not have the power to investigate Guinness Ireland's acquisition of United Beverage Holdings, a local drinks distributor. Page 16

Fisher seafoods may net £100m
Albert Fisher shareholders are waiting for confirmation, likely by Wednesday, of the UK group's plan to sell its seafood division for up to £100m ($163m). The plan comes after last week's decision by Albert Fisher to break off takeover talks with Chiquita Brands, the US banana company. Page 16

Shake-up in store for German retailers
Smiles and short queues are rare in Germany's notoriously unfriendly and badly managed shops. But that may be about to change. Recent moves towards consolidation in the domestic market and expansion abroad suggest the country's big retailers could at last be facing up to their long-standing problems. Page 17

Hamill denies W H Smith break-up talks
Keith Hamill, finance director of W.H. Smith, has denied holding formal discussions with investors on breaking up the retail group, although he admitted that he had come under pressure from some large shareholders to follow such a course. Page 16

Terms agreed for further Bezeq sale
Israel's Treasury yesterday prepared the way for further privatisation of Bezeq, the state-owned telecommunications company, by hammering oot an agreement on conditions for a future sell-off with Histadrut, the trade union federation. Page 17

Companies in this issue

Market Statistics

http://www.FT.com

Bad weather threatens poor crop for Mediterranean growers

Fruit prices poised to soar

By Gary Mead in London

Mediterranean fruit growers are facing their worst harvests in more than a decade, and consumers across the European Union may face significant price increases for both fresh and processed fruits.

"In my 15 years with this company I've never seen anything like it," said Walter Zanre, a director of Mediterranean Growers, the UK-based subsidiary of Europe's biggest fruit processor, Conserve Italia. "This is truly a catastrophic year." The problems started in April when late frosts severely damaged fruit trees in flower.

Gales in Italy in June added to the damage, knocking over trees and blowing young fruit to the ground. Production of Italian pears, peaches and apples is likely to be 60 per cent below average as a result.

"Ex-factory prices for processed fruits, both juice and canned fruit, are already up 30 per cent," said Mr Zanre, whose company's biggest markets are respectively Germany, the UK and France.

Prices in the UK are not yet strongly affected, thanks to the strength of sterling, but that could easily change if the crops are as low as the growers now expect, added Mr Zanre.

In Greece the peach crop, which is largely used for processing, is likely to be similarly affected. French fresh fruit output will also be hit, but analysts estimate that the decline in crops will be less severe.

According to estimates from Prognosfruit, the Italy-based analyst, EU apple production may be as much as 9 per cent lower than normal, down to 6.76m tonnes against 7.47m tonnes in 1996. Italy is the EU's biggest producer of apples and pears.

Prognosfruit recently projected a 12 per cent drop in apple production, to 1.6m tonnes, but farmers and processors are already revising that figure downwards.

"Harvesting the Italian apple crop starts at the end of September and we will have a clearer idea then," said Mr Zanre. Last year, Italy harvested 1.074m tonnes of pears out of a EU total of 2.606m tonnes. This year the EU's total pear harvest is expected to be just above 2m tonnes, with Italy's share dropping to about 700,000 tonnes.

Pear production will also be affected in Spain, where Prognosfruit estimates the crop will be some 562,000 tonnes, 14 per cent lower than last year, and France, with 246,000 tonnes, 26 per cent down.

Foreign banks eye Latin America

Potential for huge growth is encouraging acquisitions and expansion

By Geoff Dyer in São Paulo and David White in Madrid

If further proof were needed that the international banking world is taking Latin America seriously, Henrique Campos de Mereilles provides it. A Brazilian, he last year became president and chief operating officer of BankBoston, one of tha most blue-blooded in the US, which is now looking to South America to spearhead its growth.

It has assets of about $5bn in both Brazil and Argentina – markets where it has been present for most of the century – and aims to grow in the region by 20 per cent a year for the rest of the decade.

Rather than attempt significant acquisitions, BankBoston aims to grow through modern delivery systems, including credit cards, investment products (it already claims a 20 per cent share of the market for mutual funds in Argentina), and even on-line banking.

"Our idea is that we will in due time be the only alternative source to the large retail banks, because we are building a portfolio of customers via the credit card and via mutual funds – very much like US companies such as Fidelity, Charles Schwab and American Express," says Mr Mereilles.

The strategy is unusual, but shows how hard many banks are working to gain access to Latin America. Both in Europe and North America, bankers now seem to believe there is greater risk in staying out of Latin America than in entering it.

Other banks are doing so by acquisitioo – notably Spain's Banco Santander, which last Friday acquired Banco Noroeste of Brazil in a $500m deal. This followa the UK-based HSBC Holdings' $1bn acquisition of Bamerindus in May.

The main attraction is the growth potential in consumer banking at a time of sustained economic growth and low use of the banking system.

Buenos Aires: foreign institutions are attracted by the growth potential in consumer banking

In Brazil the volume of loans is equivalent to 30 per cent of GDP, compared with 180 per cent in the US. On average only one in two people has a bank account in Brazil, compared with an average of three accounts per person in Japan. Some estimates put the number of potential new Brazilian customers for the banking market at 30m.

Other countries in the region, such as Chile, are more sophisticated, but the pattern is similar.

With inflation under control, a new lower middle class is developing across the continent, and its members are thinking much more about saving and demanding more financial services. This is stimulating markets for fund management and savings products. The last six months have seen joint ventures to offer pension plans involving US companies such as Aetna, Alliance Capital and Chase Manhattan.

The fragmented nature of the banking sector has presented opportunities to foreign institutions. In times of high inflation, many banks made handsome profits just by sitting on money. This encouraged the creation of a large number of institutions, many of them family owned. Now many appear inefficient and are content to surrender independence.

Finally, regulators, previously the greatest barrier to entry, seem to be growing more lenient. With its approval of HSBC's acquisition of Bamerindus, Brazil's central bank signalled its readiness to let foreign banks play a significant role in the banking sector.

Foreign banks' comparative advantages include low cost of funding, more sophisticated technology and a much higher level of customer service.

But several banks face awkward strategic issues trying to exploit these advantages, particularly in the highly competitive Brazilian consumer market.

In buying Bamerindus, HSBC acquired one of the largest banking networks in the country, but it was a franchise that was badly damaged. Rumours about liquidity problems under its former owners had led to a massive withdrawal of deposits.

Spain's Banco Santander has been the most impressive acquirer, buying banks in the continent at a rate of one every seven weeks, to become the largest foreign presence.

It has investments in the region totalling $3.7bn. "The Brazilian market is fundamental to any strategy of building a full banking service franchise in the continent," says Emilio Botin, the Santander chairman.

Mr Botin is the biggest force in private sector banking not only in Spain but also in Argentina, where a recent deal worth almost $700m to take over Banco Rio de la Plata will create the country's largest non-state bank group.

But size could still be a problem. The Noroeste acquisition may turn it into the seventh largest bank in Brazil, but it is still a long way behind the largest banks. Santander has authorisation to open up to 200 branches in the country: the top four each has more than 800 branches and they are still growing. Second tier banks could be squeezed.

Santander says the boldness of its acquisitions and the search for a large market share is a necessity. Ana Patricia Botin, daughter of the chairman and director in charge of the acquisitions, says: "Being second or first is important in order to be profitable."

But Santander has already come up against its self-imposed ceiling for investment risk in Latin America – the equivalent of 20 per cent of total capital.

Other Spanish banks are close behind it and the race for the continent has been hastened by fierce internal rivalries. Banco Bilbao Vizcaya (BBV) controls the top banks in both Venezuela and Colombia and holds big stakes in Argentina and Mexico. It began the latest Spanish rush in 1995.

Still on the acquisition trail, BBV is looking at deals in Chile and Brazil. Both Santander and BBV now have more banking employees in Latin America than they do in Spain. Analysts reckon that BBV will soon be obtaining 30 per cent of its net interest income from Latin America.

Additional reporting by John Authers in New York

US bank says $1.2bn merger is proving good value

By John Authers in New York

NationsBank's acquisition of Montgomery Securities, one of a series of mergers between large commercial banks and smaller investment banks, will create an entity capable of going "head to head with Goldman Sachs and Morgan Stanley and whoever else is there", according to Mr Hugh McColl, NationsBank's chief executive.

Speaking to the Financial Times, Mr McColl said he believed the $1.2bn paid for Montgomery, one of the largest investment banks in California, was good value.

He said the transaction had already generated extra revenue, even though it is not due to complete until October.

Several Wall Street analysts were sceptical when the deal was first announced. Ms Nancy Bush, analyst at Brown Brothers Harriman, downgraded her earnings estimates, describing the purchase as "absolutely ill-advised".

NationsBank's $1.2bn was 70 per cent in cash and 30 per cent stock, a price 12.2 times expected income.

Mr McColl said that as Montgomery was privately held, they had been able to structure the deal to maximise tax advantages. This reduced the amount effectively payable by NationsBank by about 20 per cent, he said, bringing the implicit earnings multiple to about 10.

Montgomery was attractive mainly because it offered NationsBank the chance to arrange equity financing for clients through initial public offerings.

But Mr McColl said the deal would also generate extra revenue for NationsBank's debt financing operation. In the two months since the deal was agreed, more than 100 referrals have been made between the two banks (equity financings for Montgomery and debt financings for NationsBank), generating new revenue of more than $40m, he said.

Mr McColl said: "The real issue isn't going to be finding things to do together. It's going to be controlling the insatiable demand from the NationsBank side for their services."

The Monday Profile, Page 6

Esso hit by retail ruling

By Norma Cohen, Property Correspondent

Esso petrol retailers won a victory in the UK's High Court on Friday when a judge ruled that Esso could not force them to buy products other than petrol without breaching European competition rules.

The ruling could force Esso and other UK petrol companies to alter the terms under which retailers are forced to turn to them to supply the most profitable goods sold at petrol forecourts.

Esso yesterday confirmed that because of stiff competition in petrol prices, most profits at forecourts were derived from non-petrol items such as soft drinks and food.

However, Esso termed the ruling "technical" and said it was considering an appeal. The company said the lawsuit that gave rise to the ruling only related to a specific Esso contract prevailing in 1989.

The ruling, in the Chancery Division of the High Court, was made on a request for summary judgment by a former Esso retailer, David Rowley, of Birmingham.

Mr Rowley had gone out of business in 1993, partly, he claimed, because of the punitive terms of his contract. Esso pursued him for several thousand pounds, but Mr Rowley filed a counter-claim for the profits that he said Esso had deprived him of illegally.

"The way is open for Mr Rowley and others like him to claim the petrol tie and related provisions are null and void," said Sarah Ferdinand, solicitor at Kelly, Ferdinand who represented Mr Rowley.

Julian Maitland-Walker, solicitor for the Esso Licensed Retailers Association, which has filed a similar suit against Esso at the European Commission in Brussels, said other contracts for Esso licensees and agents contain similar restrictions. He added that such clauses were standard in the industry.

UK companies' Emu warning

By Richard Adams, Economics staff

With only 500 days to go until the launch of European monetary union, a new survey of UK corporate treasurers has found many companies unprepared for a single currency.

The survey by Record Treasury Management, a financial consultancy, found that 41 per cent of UK company treasurers claimed to have "no idea" of the cost of converting their business to a single currency.

About 20 per cent of treasurers expected the cost to be between £2m and £5m.

The UK is highly unlikely to be a member of the proposed single currency on January 1 1999.

However, the chances of joining in a second wave are much higher, while companies dealing with the UK's closest trading partners will need to be able to deal with Euros from the very start.

RTM approached 270 corporate treasurers for the survey, and found that while a majority think Emu will be beneficial for the UK, only 46 per cent think it will help their own company.

Information technology is one area under most pressure before the introduction of the Euro as companies prepare for periods of dual pricing.

For example, the European Commission is said to hope for UK bank and credit card statements to carry Euro and sterling figures after January 1999, even if the UK is not a member.

A report out today from Cap Gemini, the computer and business consultancy, says UK businesses "are taking excessive risks in delaying their preparations for Emu and are now in danger of being unable to meet deadlines".

Laura Ashley to warn of first-half loss

By Christopher Price

A trading statement from Laura Ashley this week is likely to signal firet-half losses as a result of the UK clothing and home furnishings group taking remedial action to alleviate excess stocks.

The company is also expected to announce a slowing of its US expansion after disappointing trading, and further reductions in its garment workforce in Wales.

The statament is being issued ahead of the interim results next month and follows a profit warning in April when the stock problem was first disclosed.

Analysts are forecasting first-half pre-tax losses of £4m ($6.5m), against profits of £5.2m. While many are still expecting the company to stay in the black for the full-year, profit forecasts – which were pulled back from £20m to £8m after April's warning – could be reduced further this week. The company made profits of £14.4m last year.

The statement will put further pressure on Ms Anne Iverson, chief executive, who was brought into Laura Ashley two years ago to turn the group around. The company has also been hit by the resignation of three senior managers in recent months.

The job losses will be the second round of cuts in the garment business, which employs about 450 people, since Ms Iverson took over.

The proportion of clothes made by the six Welsh outlets for the company has fallen from 25 to 20 per cent as Laura Ashley has attempted to brighten up its dowdy image and reduce costs by sourcing more product from south-east Asia.

Trading at the new stores in the US is expected to be disappointing and lead to the company reviewing the pace of its expansion. The strategy has been to open larger stores to include a bigger range of furnishings.

The resignation of Ms Basha Cohen as buying director last month sent the shares to a five-year low. It came one month after the departure of two other directors and led to speculation of management disarray. The shares have recovered slightly, but at Friday's close of 61p, remain well below the 200p of a year ago.

Fisher seafoods may net £100m

By Maggie Urry

Albert Fisher shareholders are waiting for confirmation, likely by Wednesday this week, of the UK group's plan to sell its seafood division for a sum whicb could reach £100m ($163m).

The plan comes after last week's decision by Albert Fisher to break off takeover talks with Chiquita Brands, the US banana company.

One shareholder said that, after the bid hopes were dashed, "option B – implosion – is the best there is". Many expect the sale of seafoods will signal the start of a break-up of the group. Another said "if Chiquita was interested, there might be other players who would look at a cleaner business".

One analyst said the board's statement announcing the end of bid talks, and plans to buy bsck shares, was "a lengthy resignation letter". He added. "I'm damned if I know what they can sell tbat will enhance earnings."

Tim Potter, analyst at Merrill Lynch, said "the management is under pressure to come up with innovative measures to restore some value to shareholders".

Since Stephen Walls took the chair at the fresh produce, food processing and seafood group in 1992, be has battled to turn what Mr Potter called "an aglomeration of private businesses" into a growth business.

However, the shares have continued to perform poorly, and one adviser said "it reached the stage some months back where they needed to take more significant action to create shareholder value. More of the same is not going to work anymore. I think Stephan [Walls] is being brava, he has to make some bold moves."

He said there was a vogue with institutional shareholders for a return of value to shareholders through share repurchases, as Rank had done following the £1bn disposal of its Xerox stake.

Mr Walls said last week that the sale of a business would be above asset value, and at a higher p/a than the shares were trading on.

Buying back shares with the proceeds would push the group into a virtuous circle of increasing earnings per share, ha said.

Depending on the share price when the buy-back takes place, and the amount raised from the sale of the seafood division, about 25 per cent of the group's shares are expected to be retired.

Although the sale would reduce profits – the division mada operating profits of £7.7m out of a total of £45m in 1996 – the share buy-back would also reduce the annual dividend cost of £27m.

Brendan Corr

Stephen Walls: battled to turn group into growth business

WH Smith director denies break-up talks

By Christopher Price

Keith Hamlll, finance director of WH Smith, yesterday denied he had held formal discussions with investors on breaking up the retail group, although he admitted to pressure from some large shareholders to follow such a course.

Smith shares have fallen 30 per cent in the past 12 months. The company, which owns Waterstone's book shops and the Our Price records chain as well as the high street stores, slipped to its first ever loss last year.

Investor unease has been heightened by the departure of Bill Cockburn as chief executive after just 18 months in the post, and the time being taken to replace him.

Mr Hamill, a candidate for the vacancy, said: "Neither myself nor anyone else at WH Smith has held discussions with outside institutions about breaking up the company." He said he understood the frustrations of shareholders in wanting to realise their investments more quickly through disposals.

He also denied that he was using the break-up plan to appeal to shareholders over the heads of the non-executive directors, soma of who are understood to have come out in favour of Mr Richard Handover, head of Smith's newspaper distribution arm, to succeed Mr Cockburn.

Smith directors are loath to be drawn into a break-up debate at snch a crucial time. The episode underlines the tensions within Smith as the search for a chief executive drags on.

"Smith does not need its own directors to rock the boat," said one retail analyst yesterday. "The share price is all at sea as it is."

Mr Hamill said yesterday he had no plans to quit if he did not get the chief executive's job.

Analysts have suggested a break-up value of Smith's of about £1.5bn, compared with a market value of just over £1bn.

Harney to pursue Guinness

By John Murray Brown in Dublin

Ms Mary Harney, Ireland's new minister for enterprise, trade and employment, has been forced into an embarrassing climbdown after the Competition Authority said she did not have the power to investigate Guinness Ireland's acquisition of United Beverage Holdings, a local drinks distributor.

Last week's move to refer the deal to the Anthority was apparently made too late, as the law stipulates that an approach must be made within 30 days of a merger being announced.

Ms Harney conceded there was a "technical flaw" in the procedure adopted by her department in referring the proposal. However, she said she would pursue "alternative means" to address her concerns about Guinness's dominant position in the market.

She intends to seek discussions with the company and referred to unspecified "options available to her under the Competition Acts".

Guinness accounts for 7 out of every 10 pints of beer drunk in Ireland – and 9 of every 10 pints of stout. The UBH deal would give it an estimated 27 per cent of packaged beer distributed by the main brewers.

The deal values UBH at I£48m ($70.4m). Guinness, which already owns 30.8 per cent, is paying I£12.9m for a 27.9 per cent stake owned by James Crean, the industrial gronp, and I£8.6m for a 18.5 per cent stake beld by Fyffes, the banana company. It has also agreed to acquire the I£11m of ehares controlled by the Byrne and Doyle families.

When a hedge is not a gardener's problem

Richard Adams looks at why more UK companies don't use currency hedging

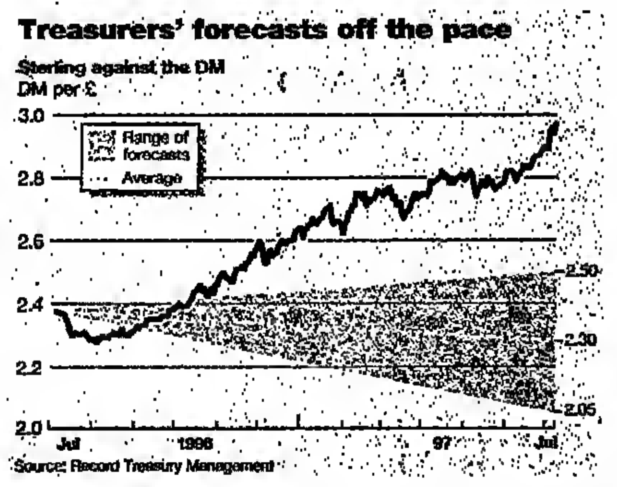
As the half-yearly company reporting season has got under way, so too have the protests from UK companies that the strength of sterling is cutting profits.

BOC, the gas producer, estimated that sterling's rapld rise in the last 12 months would cut £46m off its annual profits because of the cost of translating foreign currency earnings into sterling.

But, as one letter writer to the Financial Times recently asked, surely UK companies could avoid these problems by hedging their currency exposure, using financial instruments to protect against exchange rate fluctuations?

In fact, exporters use a number of techniques to lower currency risks. An engineering firm exporting machinery to Germany, for example, could price its contracts in sterling and shift the exchange rate risk on to its customers. Exporters can also buy forward contracts for an exchange rate fixed at a future date.

An unpublished survey of corporate treasurers by Record Treasury Management, a London consultancy, found that 77 per cent of respondents used forward contracts and other currency derivatives.



Source: Record Treasury Management

But Les Halpin, chief executive of RTM, said while many companies were happy to use derivatives to hedge their cash positions, almost none was prepared to use similar instruments to protect profits earned overseas.

The result is companies with substantial overseas operations, such as BOC, Imperial Chemical Industries and Reuters, have reported translation losses in converting foreign profits. ICI said interim pre-tax profits were down £90m because of the rapid rise in sterling. It attributed £30m to the translation into sterling.

So why not use derivatives to hedge translation costs? UK companies rarely do, according to Mr Halpin, because they often don't understand them.

The RTM survey found that 30 per cent said "complexity" was the main risk in using derivatives. "Most company executives think a hedge is something they get their gardener to trim," grumbled one City equities analyst.

Anotber 35 per cent of treasurers said "lack of control" was a significant risk – the fear that the spirit of Nick Leeson may live in a graduate trainee within the finance department. Since future profit levels are unknown, deciding how much to hedge is one barrier.

Sandvik, the Swedish industrial group, was recently caught out by currency hedging, as it reported *an 18 per cent fall in first-*half profits. In its case, the weakening of the krona meant its hedged positions made a loss.

UK finance directors are reluctant to hedge for several reasons. Profits lost in translation can often be "paper losses" – it is only wben the profits are converted into sterling that a loss is made. And there are complex accounting problems for representing derivatives on balance sheets, especially for instruments spanning several years.

But the most important reservation may be psychological.

If a corporate treasurer gets permission to hedge overseas earnings, and a currency shift makes the hedge unnecessary, then the cost and blame for the decision can be easily identified. But if the treasurer decides not to hedge, then the company is at the whim of the currency markets, an act of God for which no one is responsible.

Ironically, many corporate treasurers are happy to let their organisations dabble in currency speculation – even though treasurers are no better than anyone else in *predicting* rate movements.

In 1996, RTM asked them to predict sterling's rate against the D-Mark in a year's time. The highest reply was DM2.50. A year later, the pound rose above DM3.02 – 25 per cent more than the average forecast of DM2.40.

Hedging cannot protect a company from extended currency movements. John Rennocka, finance director of British Steel, said: "Hedging is an important part of any exporter's business activity, bnt can only defer the impact of violent currency swings."

But, Mr Halpin replied, well judged hedging can give a company "breathing space", enabling it to take decisions on moving production or resources before the full impact of a currency swing is felt.

INTERNATIONAL NEWS DIGEST

Thai telecoms group in the red

Shinawatra Satellite and Advanced Info Service, two Thai telecommunications companies which are both parts of the Shinawatra group of companies, reported sluggish half-year earnings.

Shinawatra Satellite, which operates Thailand's three telecommunications satellites, fell into a net loss of Bt258.7m ($8.1m) in the second quarter, compared with profits of Bt61.8m, which pushed the company into a first-half net loss of Bt266.2m. In the first half of 1996 it made a profit of Bt175.6m.

Analysts said the losses were primarily due to costs associated with the start-up of operations of Thaicom 3, a new satellite launched earlier this year. In May Shinawatra switched many of its customers from Thaicom 1 to Thaicom 3, a costly process.

The company has also suffered from a lack of payment from a struggling customer, cable television operator Thai Sky TV, owned by the Wattachak Group. Analysts believe Thai Sky, which last week had its cut off by Shinawatra, owes the satellite operator more than Bt200m.

Advanced, Thailand's leading mobile phone network operator, said first-half net profit was Bt1.84bn, up 3.4 per cent compared with the same period last year. Second-quarter earnings were Bt927.9m, up 4.7 per cent on tha comparable period.

Ted Bardacke, Bangkok

■ NEW ZEALAND

INL optimistic after 7% rise

Independent Newspapers (INL), the New Zealand Newspaper and magazine publisher which is 51 per cent controlled by Murdoch interests, expects to improve earnings further in the current financial year after reporting a 7 per cent lift in after-tax earnings to NZ$50.42m (US$32.4m) for the year to June 30.

INL, which owns newspapers in New Zealand, Australia and the US, revalued its newspaper titles leading to a NZ$445.1m rise in their value to NZ$673.2m. The revalued titles now account for 54.8 per cent of total assets.

Revenues rose 3.6 per cent to NZ$954m. Operating profit rose 10.9 per cent to NZ$80.2m in spite of a 3.3 per cent fall in advertising revenues. Sir Colin Maiden, chairman, said the New Zealand operations performed strongly.

Terry Hall, Wellington

■ JAPAN

Aoki credit rating downgraded

Aoki, a Japanese medium-sized general contractor, has had its credit rating downgraded by the Japan Credit Rating Agency, a private agency, underlining growing concerns about the company's financial state.

The agency downgraded its credit rating assigned to Aoki's bonds to BB- from BB+, citing the prospect of continuing weak profitability because of an expected cut in public works projects and increases in the company's interest-bearing debt.

Aoki, which has debt of Y360.5bn ($3.01bn) against Y119.4bn in shareholders' equity, relies on public works for a significant proportion of its revenues.

The contractor, which expanded aggressively into hotel operations and real estate development, is carrying out a wide-ranging restructuring. However, JCRA noted that the impact of this on profits was unlikely to be realised immediately.

Michiyo Nakamoto, Tokyo

■ BANKING

WestLB reports 23% advance

Westdeutsche Landesbank, Germany's biggest public sector bank, announced a rise in first-half operating profits of 23 per cent to DM750m ($412.5m).

Friedel Neuber, chairman, said that the bank's increased investment banking and treasury activities were proving to be important sources of earnings. "We *expect the positive earnings trend to be maintained* throughout the whole of 1997."

Net interest incoma was 6 per cent higher at DM1.93bn, while net commission income rose 2.5 per cent to DM374m. Profits from own-account trading were up 20 per cent to DM274m.

Although loan loss provisions were increased, overall risk provisions fell by 21 per cent to DM206m as a result of changes in the liquidity portfolio. Before risk provisions, operating profits showed a 10 per cent gain to DM956m.

Andrew Fisher, Frankfurt

■ CONSUMER ELECTRONICS

Thakral forms joint ventures

Thakral Corp, a Singapore-based consumer electronics distribution company, is starting production of software products through the formation of three joint ventures in Hong Kong and China.

Despite the fact that the company is nominally Singapore-based, the distribution of consumer electronics in China and Hong Kong accounts for about 90 per cent of its turnover and 97 per cent of its pre-tax profits.

Thakral will invest S$12.6m (US$8.8m) in the three joint ventures, which will have an annual manufacturing capacity of 48m digital video discs, compact discs, CD-Roms and video CDs.

"The production and distribution of software products is a natural complement to our distribution activities of hardware products," said Inderbethal Singh Thakral, the company's managing director.

James Kynge, Kuala Lumpur

■ PHILIPPINES

Manila terminal lifts ICTSI

International Container Terminal Services Inc (ICTSI), the Philippines-based port operator, reported a 15 per cent rise in first-half net profit to 189.9m pesos ($6.4m) from the comparable period's 164.8m pesos, on a surge in container traffic in Manila and its overseas operations.

The rise was attributed to a 7 per cent expansion in container traffic at the Manila International Container Terminal, which ICTSI operates exclusively, and the strong performances of its operations in Argentina and Mexico.

The improvement came mostly in the second quarter, when net profit more than tripled to 146m pesos from the first quarter's 43.9m pesos.

Gross revenues from the MICT during the six-month period improved slightly, to 1.29bn pesos from 1.24bn pesos in the first half of last year. Analysts warned that the recent depreciation of the peso could put pressure on 1997 revenues.

Neri Tenorio, Manila

■ VIETNAM

Bank claims court victory

One of Vietnam's biggest banks claimed victory over MiesPierson, the Dutch bank, after a ruling in a Singapore court over a $550,000 letter of credit.

State-owned Industrial and Commercial Bank of Vietnam said the high court in Singapore had overturned an earlier order obtained by MiesPierson freezing the Vietnamese bank's assets in Singapore.

MiesPierson, which declined to comment, had also been ordered to pay the Vietnamese bank's costs.

The case comes as Vietnam struggles with a string of banking problems, including what the central bank estimates are $1.3bn in outstanding letter of credit payments, of which some $65m are overdue.

Jeremy Grant, Hanoi

Sibneft increases size of debut eurobond

By Chrystia Freeland in Moscow

Strong demand from investors led Sibneft, a leading Russian oil company, to increase the first Russian corporate eurobond from $125m to $150m.

The Sibneft eurobond, which closed on Friday, was the first in a flood of Russian corporate debt issues expected to hit the international capital markets over the next few months.

Other borrowers in the pipeline include Gazprom, the natural gas behemoth; Lukoil, the country's leading oil company; Mosenergo, the Moscow city power company; and Moscow City Telephones, the capital's telecoms company.

"We were pleased but not surprised," an official at Salomon Brothers, lead manager, said of the high demand for Sibneft paper. "This shows there is a great deal of interest in the marketplace for quality Russian fixed income instruments."

Sibneft, which last year produced 18.6m tons of crude oil, or 6.2 per cent of the Russian total, was able to beat other, better-known, Russian companies to the eurobond market, in part thanks to a scheme it developed together with its advisers to avoid Russia's withholding tax.

In a structure put together in consultation with Russian central bank and ministry of finance authorities, Sibneft guaranteed the eurobonds, but bond participation certificates were issued to investors by a German bank affiliated with Salomon Brothers. The bank then granted a loan of the same amount to Sibneft.

Analysts predicted that the scheme might be imitated by other Russian corporate borrowers.

Sibneft, whose three-year bond was priced to yield 4 percentage points over Libor, also benefited from foreign investors' predilection for Russian oil and gas companies.

Although Sibneft does not have a credit rating, investors accepted a lower premium on its bond than on recent debut issues by three Russian banks.

US merger creates a packaging dream team

By Tracy Corrigan in New York

The merger of Sealed Air and W.R. Grace's protective packaging business is, according to one analyst, "a combination that has been talked about and dreamed about for years".

The deal, announced last week, creates a company that is the clear global leader in the market for protective and specialist packaging, with annual sales in excess of $2.5bn. It is a sector that requires more technology than the conventional packaging industry – and enjoys higher margins.

According to Mark Gulley, an analyst at Merrill Lynch: "There really is a strong technology link between the Sealed Air protective packaging business and Grace's Cryovac food packaging business."

Sealed Air's business, primarily providing industrial and consumer protection against shock, includes well-known brands such as Bubble Wrap and Jiffy padded envelopes.

Cryovac is world leader in packaging systems for perishable foods. For example, Cryovac technology has provided consumers with prepared salads in sealed packaging in supermarkets. "It sounds simple but it isn't," says one analyst, who explains that Cryovac had found a way of preventing the salad from becoming soggy.

While analysts say there is some overlap in the food packaging side – Sealed Air has a product called Dri-Loc, absorbent pads used for retail packaging of meat – it is "essentially a complementary deal", says one observer.

The company said there would be some cost savings – but the bulk of the $75m to $100m a year, over two to three years, which it estimates will be generated by the merger, will come from increased revenues.

Packagers want to provide clients such as Gateway and Hewlett-Packard with 'the same packaging solutions in 10 countries around the world'

Sealed Air's record is one of living up to or exceeding targets for acquisitions, and analysts describe its management as the most able in the business – though it has not previously tried to absorb a business considerably larger than itself.

"It's a unique opportunity to combine two companies that have a commitment to research and development and two companies which sell solutions to people's packaging problems," said T.J. Dermot Dunphy, chairman and chief executive officer of Sealed Air, who will also be chairman and chief executive of the merged company, still called Sealed Air.

He added that Sealed Air spent about 2.5 per cent of sales on research and development, compared with a 1 per cent average for the industry.

"We intend to stay very much focused on protective and other speciality operations," said Mr Dunphy, adding that Sealed Air's gross margin of about 37 per cent was much higher than elsewhere in the packaging industry.

The main benefit of the deal for Sealed Air will be Cryovac's much broader geographical reach – it is active in 60 countries, compared with 26 for Sealed Air. For the much smaller Sealed Air, the cost of entering all those new markets alone would have been prohibitive.

Yet, like the car components industry, packagers want to be able to provide clients such as Gateway and Hewlett-Packard with "the same packaging solutions in 10 countries around the world", said Mr Dunphy.

Most important, Cryovac has a strong presence in key countries in Latin America, such as Argentina and Brazil, and in eastern Europe, such as the Czech Republic. Mr Dunphy pointed out that "95 per cent of the world's population is outside the US and living standards are increasing rapidly".

Mr Gulley, of Merrill Lynch, says both product lines have been growing at 8-9 per cent, and believes this could accelerate to 11-12 per cent after the merger. Cryovac has also successfully introduced new products, moving from meats into cheeses and ice cream, for example. "It may look innocent, but there is a lot of new technology."

INTERNATIONAL NEWS DIGEST

Agreement on Bezeq sell-off

Israel's treasury yesterday paved the way for further privatisation of Bezeq, the state-owned telecommunications company, by reaching an agreement on the conditions for a future sell-off with Histadrut, the trade union federation.

Merrill Lynch, the US investment bank, last mooth agreed to pay US$250m for 12.5 per cent of Bezeq, which is 10 per cent owned by Cable and Wireless, the UK telecommunications company.

The Histadrut staged strikes in several sectors in solidarity with Bezeq workers, who said they were not informed of the sale. Bezeq's unions also demanded that the government funnel proceeds from the sale to pension and compensation funds.

Histadrut and the treasury yesterday agreed to allocate 3 per cent of the value of the Merrill Lynch deal to workers. The treasury also said that it would "make every effort" to sell an additional 10 per cent of Bezeq by the end of October, and would earmark 80 per cent of the proceeds "to safeguard workers' rights".

Bezeq said: "If 80 per cent is to be reinvested in the company, the board should decide whet to do with it."

Avi Machlis, Jerusalem

■ US DEFENCE INDUSTRY

Antitrust concerns raised

Senator Arlen Specter, who sits on the Senate Appropriations Committee's defence subcommittee, said that he had written to Joel Klein, head of the Justice Department's antitrust division, over a reported $1bn bid by Georal Dynamics for United Defense, a manufacturer of tracked military vehicles.

Any deal would merit "close scrutiny by your agency and the appropriate congressional oversight committees." Senator Arlen told Mr Klein.

General Dynamics has not confirmed that it has bid for United Defense, which is 60 per cent owned by FMC, the Chicago-based conglomerate. The remaining 40 per cent is held by Harsco, which is based in Pennsylvania.

Senator Specter warned that General Dynamics and United Defense were now the only US companies making armoured vehicles, raising antitrust concerns.

Four years ago, there were five groups in that sector, he claimed.

Nikki Tait, Chicago

■ OIL REFINING

Korean groups ahead in first half

Yukong and Ssangyong Oil, South Korea's leading refiners, reported higher earnings during the first half of 1997 because of increased petrochemical and oil prices. Yukong posted a 826 per cent jump in net profits to Won100.5bn ($112m) as sales rose 33 per cent to Won5,240bn. Earnings for Ssangyong Oil rose by 8 per cent to Won69.3bn, while sales climbed by 26 per cent to Won2,473bn.

John Burton, Seoul

■ CELLULAR TELEPHONY

Growth slows at SK Telecom

SK Telecom, South Korea's largest cellular phone operator, reported a 5 per cent rise in net earnings to Won163.9bn ($183m) for the first half of 1997 as sales climbed by 55 per cent to Won1,596bn. It was the second highest profit for a Korean listed company in the January–June period, behind that of Pohang Iron & Steel (Posco) with Won543.2bn.

Nonetheless, profit growth slowed sharply from previous years because of increased competition in the mobile telecoms market. SK Telecom, formerly known as Korea Mobile Telecom, enjoyed a monopoly in cellular phone services until last year.

Capital expenditures affected profits as SK Telecom replaced its analog system with advanced digital equipment. Marketing expenses also increased in response to competition.

Analysts expect pressure on earnings will increase with the launch this autumn of several operators of personal communications services (PCS), which is a cheaper alternative to cellular phone systems. The government also recently reduced the call charges of SK Telecom.

John Burton

Shake-up in store for German retailers

Smiles and short queues are rare in Germany's notoriously unfriendly and badly managed shops, but that may be about to change. Recent moves towards consolidation at home and expansion abroad suggest the country's big retailers could at last be facing up to their long-standing problems.

"Germany is potentially one of the most exciting retail markets in Europe. It is a fragmented market that is overdue for change," says Victoria Maxwell-Snape, European retail analyst at James Capel in London.

The creation last year of Metro AG, Germany's biggest retailing group, through the merger of the German units of the Metro Group of Switzerland, could be the catalyst for transformation.

The merger of the cash-and-carry, department store and supermarket interests of Metro, Kaufhof and Asko prompted speculation about a wave of rationalisation, which has driven most German retailers' shares sharply higher this year.

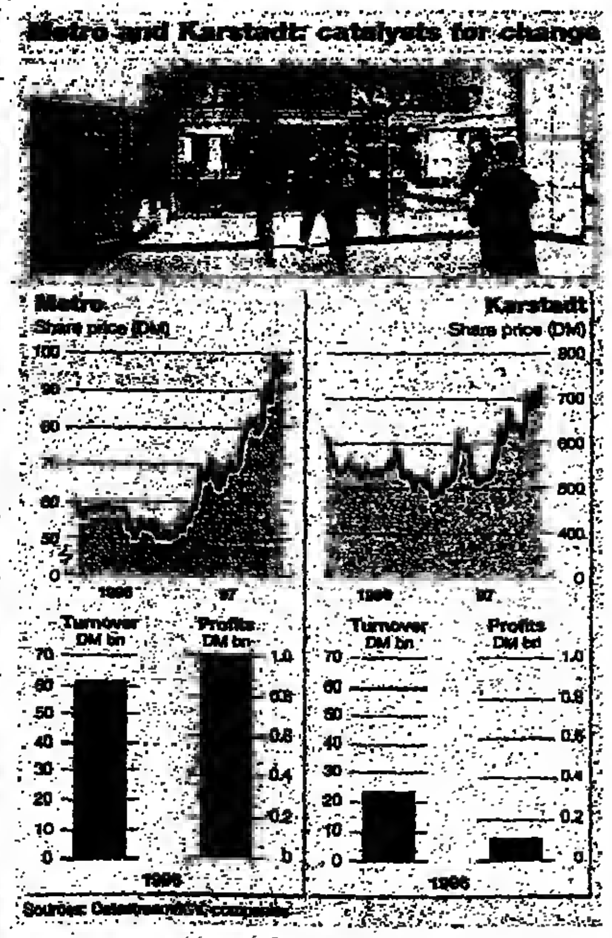
Last month, Metro turned its attention to international expansion, announcing plans to take over the remaining stakes it did not already own in Makro, the European cash and carry business.

This deal, valued at about DM4bn ($2.2bn), is still being negotiated but would give Metro full access to Makro's extensive operations in eastern and western Europe and elsewhere. Analysts estimate it would create a cash-and-carry concern with about 245 stores in 16 European countries with total sales of about DM40bn.

"That was very good news for Metro. It gives them a lot of clout in the cash-and-carry business, which may not be the format for the future but it does give them the possibility of developing in Europe," Ms Maxwell-Snape says.

Foreshadowing another possible move, Metro will next month ask shareholders for permission to raise new capital – possibly as much as DM7bn – to help buy other companies in Germany and abroad. Klaus Wiegandt, Metro chairman, said recently that the group was keen to expand outside western Europe, where consumer demand is stagnant, to Poland, Turkey and China.

Metro and Karstadt: catalysts for change



Sources: Datastream/ICV; companies

But such repositioning has not been the sole preserve of Metro. Last week Schickedanz, a privately-owned mail order and banking group, bought a 20 per cent stake in Karstadt, the big retail concern, from Deutsche Bank and Commerzbank, two of Germany's biggest banks.

Karstadt said it would now co-operate more closely with Schickedanz, but it is still unclear what form this co-operation will take – whether the two would simply work together on logistics and purchasing, whether they would pool their interests more fully or whether Schickedanz would take over and run Karstadt.

But the move has won praise from analysts who see great benefits from pooling the two businesses' mail order operations. Karstadt owns the Neckerman mail order company as well as department stores under its own and the Hertie names, and travel agencies. Schickedanz owns Quelle, Europe's largest mail order company.

"Quelle and Neckerman are a good fit. it's a good merger," says one retail analyst at a bank in Frankfurt.

Analysts point oot that Karstadt'e strength in logistics and distributioo could be used to support Quelle's expansion. Mail order might also be the easiest way for a retailer to expand across borders in Europe, since it avoids the legal difficulties and costs of acquiring land and building new stores in foreign countries.

But not everyone is convinced that mergers and consolidation will solve the problems Germany's big retailers face, arising from high labour costs, subdued consumer spending and poor management.

"German retailing has been an area which on the whole has not been terribly well managed or of terribly good quality," says one analyst at a London bank.

"There is an increasing awareness that things have been done better in other countries such as the UK, which is leading to consolidation and restructuring. But we are alarmed to the extent to which it is being assumed that this will solve the problems. Just sticking things together doesn't by itself solve anything."

One developmeot some analysts are uneasy about is the link-up between Spar, the German retailer, and Intermarché, the French group – not least because their structures are very different. "There is a feeling that this could be two bits of dead wood getting into bed with each other," says one London-based analyst.

Karstadt's problems mainly revolve around the poor performance of its department stores, in particular difficulties with the integration of the recently-purchased Hertie chain. Klaus Becker, retail analyst at SBC Warburg in Frankfurt, points out that Karstadt is also burdened by high costs relative to its sales.

Metro, on the other hand, has so far successfully integrated the Kaufhof and Asko concerns. Its shops are benefiting from a new "gallery" concept, involving a redesign to allow a better flow of customers and sharper differentiation between goods.

Its hypermarket and DIY divisions have had difficulties, but its electrical goods division has prospered and its discount stores have benefited from the eubdued economic cooditions in Germany.

But whatever the retailers' problems and advantages, analysts are convinced that more consolidation is inevitable. If done well, it could create efficiencies and savings that would propel Germany nearer to the more developed markets of the US and UK. It might even improve the country's service culture, putting a smile back on the faces of customers – and investors.

Graham Bowley

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Philip Coggan

Harbinger of shift to value?

European stock markets have left even Wall Street behind over the last 18 months, with the FT/S&P Europe (ex-UK) index rising 73 per cent in local currency terms since the start of 1996, compared with a 50 per cent rise in the S&P 500.

This strength has been partly based on the same fundamentals which have been buoying the US market, namely low inflation and interest rates. But economic growth and corporate performance has been much more sluggish.

As a consequence, price-earnings ratios are much higher in Europe than they are in the US; IBES estimates that, at end-July, France was trading at 23 times 1997 earnings, Germany 26 times and Italy 21.5, compared with 19.4 for Wall Street.

Although p/es tend to be higher in the early stages of a economic cycle, the European markets may be vulnerable to an immediate setback. Nikko Europe argues that valuations are high in France, Germany, the Netherlands and Switzerland, both relative to bond yields and to history.

Three themes seem to be driving the markets: the potential for restructuring at the corporate level, the prospects for economic recovery and the approach of European monetary union.

Restructuring has tended to be seen as a euphemism for job-cutting on the grounds that European industry needs to shed labour to compete in the global market.

But recent weeks have reminded investors that takeovers may be just as important a theme; for example, the merger between the German banks Vereinsbank and Hypo-Bank or the takeover of insurance group Winterthur by Credit Suisse. Even a simple change in voting structure at RWE, the German utility, caused the company's shares to rise nearly 9 per cent on the day.

There is plenty of scope for returns to improve, whatever the chosen route. According to Mark Howdle, European strategist at UBS, returns on equity in France (4.7 per cent) and Germany (7.8 per cent) are well below the 15-16 per cent achieved by the best countries in Europe, the UK and the Netherlands.

European economies are also gradually picking up speed. HSBC James Capel expects gross domestic product growth in the EU to pick up from 2.5 per cent in 1997 to 3 per cent in 1998 with 2.5 per cent growth next year in Germany and 2.9 per cent in France.

With plenty of spare capacity in most European economies – as witnessed by the double digit unemployment rates in France and Germany – it should be possible to achieve growth for some time without igniting inflationary pressures. Capel is looking for inflation rates of under 2 per cent next year in both France and Germany and just 2.1 per cent in Italy.

Added to these two bullish developments, of course, has been the weakness of the D-Mark and other European currencies in the run-up to monetary union. Investors have increasingly decided that, because of the accounting "fudges" used by countries to meet the Maastricht criteria, the Euro will be a weak currency.

But this assumption may in itself be the greatest threat to the stock market's health. Last week, rumours that European monetary union would be delayed combined with a warning from the Bundesbank about inflationary pressures to send European markets sharply lower, with Amsterdam falling 4 per cent and Frankfurt 3 per cent on Wednesday.

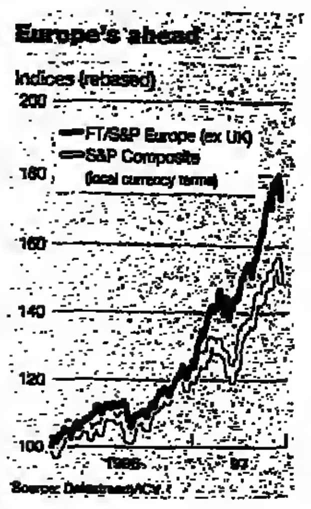
The prospect of an Emu delay, or a German interest rate increase designed to control inflation, is likely to lead to a flood of money into the D-Mark. That would put pressure on the peripheral currencies, leaving them with the dilemma of whether to raise their own rates and risk stalling their economic recoveries – making it even more difficult to meet the Maastricht criteria.

How can investors best protect themselves against such dangers? Nikko argues that "any market decline is liable to hit those stocks which are highest in their relative valuation ranges the hardest. This is especially true in the case of those sectors driven up by considerations of liquidity". In short, it may be time for investors to switch out of growth and into value stocks.

Value investing has been a disappointing discipline over the last few years, in part because of the underperformance of small stocks and in part because of the enthusiasm for the "global Nifty Fifty" of stocks with worldwide business franchises.

But a setback in European markets could prompt a shift back to value as investors take profits from their most liquid holdings, and retreat from their riskiest positions.

Europe's ahead



Source: Datastream/ICV

Total return in local currency to 14/08/97

	% change over period					
	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.11	0.01	0.06	0.06	0.13	0.13
Month	0.47	0.05	0.26	0.28	0.58	0.57
Year	5.89	0.93	3.50	4.25	8.47	6.13
Bonds 3-5 year						
Week	0.06	0.29	0.00	0.14	-0.21	-0.12
Month	0.47	1.00	-0.39	-0.24	-0.01	0.97
Year	7.27	5.56	7.04	8.09	16.24	7.35
Bonds 7-10 year						
Week	-0.18	0.34	0.32	0.38	0.17	-0.15
Month	0.29	1.78	0.09	0.08	0.47	1.07
Year	7.84	10.53	11.32	12.30	26.86	11.70
Equities						
Week	-2.7	-0.2	-3.9	-4.0	-2.7	-1.3
Month	1.1	-1.3	-2.4	-0.5	2.9	3.7
Year	42.0	-2.4	63.5	49.1	56.9	31.4

Source: Cash & Bonds - Lehman Brothers. Equities - FT/S&P Actuaries World Indices. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

COMPANY RESULTS DUE

ABN Amro likely to reach more than Fl 2bn

ABN Amro Bank, the Dutch banking group, is expected to report on Thursday a net profit of Fl 2.014bn-Fl 2.092bn ($968m-$1.01bn) in the six months to June, up from Fl 1.696bn last year, according to analysts. They expect the bank to raise its interim dividend to Fl 0.53 from Fl 0.45 a year earlier, adjusted for its 4-for-1 share split on May 13.

■ Bayer, the German chemicals group, is expected on Tuesday to announce another set of strong figures. Analysts said they expected a rise in pre-tax profit to DM2.8bn-DM2.85bn ($1.52bn-$1.54bn) in the first six months from DM2.72bn a year earlier, on sales of DM26.77bn-DM26.8bn, up from DM24.8bn.

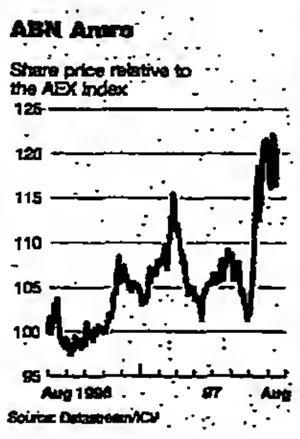
■ Volkswagen, the German car manufacturer, is expected to announce first-half sales of DM55.1bn-DM55.6bn ($29.9bn-$30.2bn) – up from DM50.5bn – when it releases its results on Tuesday, analysts said. They said the company would have benefited from a lower D-Mark and an attractive range of products.

Heinz Weyershaeuser, DG Bank analyst, said he expected the first-half net profit would be "about 70 per cent higher" than last time's DM282m, representing a net profit of about DM480m.

■ Aegon, Dutch insurance group, is expected to report on Friday a rise in net profits for the six months to June to Fl 859m-Fl 883m ($415m-$427m) against Fl 711m a year earlier, with earnings per share up from Fl 2.69 to Fl 3.24-Fl 3.32. Analysts said second-quarter net profit was expected to total Fl 456-480m, up from Fl 385m.

■ Canon, the Japanese electronic and optical equipment maker, is expected to report pre-tax profits of Y112bn ($949.2m) for the half year to June 30, up from Y63.7bn on the back of a weaker yen and strong sales of photocopiers and cameras, analysts said. The negative impact of falls in printer unit prices is expected to be offset by an unexpected revenue rise thanks to the weak yen. Canon is expected by most analysts to raise its full-year pre-tax profit forecast to about Y235bn from Y215bn when it releases interim results on Aug 27.

ABN Amro

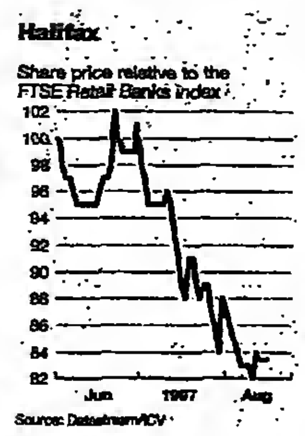


Source: Datastream/ICV

For parent-level results, due to be reported on Wednesday, analysts see Canon announcing first-half pre-tax profits of Y79bn, compared with a company forecast of Y67bn.

■ Honda, the Japanese automotive company, is expected to report on Thursday a pre-tax profit of between Y104bn-Y114bn ($881.4m-$966.1m) for the first quarter to June, up from Y76.06bn a year earlier, according to analysts' forecasts. Increases in car exports and the prolonged yen weakness were the main reasons behind the expected growth, said Takaki Nakanishi, analyst at Merrill Lynch Securities.

Halifax



Source: Datastream/ICV

■ Royal Nedlloyd, the Dutch ferry and freight company, is expected to report a second-quarter net profit of Fl 30m-Fl 60m ($14.4-$28.8m) on Wednesday, down from Fl 291m a year earlier. Analysts are expecting the second-quarter net profit figure to include an extraordinary gain of Fl 35m from the recent sale of Nedlloyd's shares in Smit International.

■ Nutricia, Dutch foods company, is expected to report on Thursday a first-half net profit of Fl 131m-Fl 135m ($63m-$65m), or Fl 5.38-Fl 5.55 per share, up from Fl 107m, or Fl 4.47 per share, a year earlier, according to analysts' forecasts. Darrell Duthie, Mees Pierson analyst, said he expected profit growth to come mainly from margin improvement largely from ongoing efficiency measures at the Milupa businesses acquired in 1995.

■ Halifax, the UK bank which recently converted from a building society, reports on Thursday, and is expected to have regained some ground in its core mortgage market. However, its share of net new lending in the six months to June 30 is still likely to have been below its historical 20 per cent share. Fee income will be lifted by a first contribution from Clerical Medical, the life assurer.

Most pre-tax profit forecasts are in the £770m-£805m ($1.26bn-$1.31bn) range, compared with £649m last time, when Halifax took an £88m charge for the costs of converting to a bank. Unlike Alliance & Leicester and Woolwich, Halifax will pay no interim dividend.

■ Analysts will be scanning Rentokil Initial's interim figures on Wednesday to see the impact of BET, acquired by the company last April for £2.1bn. Pre-tax profits for the six months to June 30 are forecast to come in at between £194m and £200m, compared with £134.5m for the first half last year.

■ Weir Group, the UK industrial engineering company, is expected on Wednesday to report a rise in pre-tax profits of more than 30 per cent for the half year to June 30. Analysts expect profits of £25m-£26m, compared with £19.2m, and full-year profits of £57m. Earnings per share of 8.7p-9.2p are forecast.

Weir is one of a few companies which use period-end currency exchange rates rather than averages, and analysts said that would flatter the figures.

INTERNATIONAL EQUITIES By Vincent Boland

Italy embraces noyaux durs

In looking for a group of core shareholders to take a combined stake of up to 15 per cent in Telecom Italia before its full privatisation in October, the Italian government is treading a well-established path.

The Treasury has invited more than 100 potential investors to join this group, with no single buyer getting more than 3 per cent. It wants to see 10 to 20 such shareholders in place before the public offering, which will be reduced by about one-third as a result.

The concept of core shareholder groups – referred to as *noyaux durs* – dates to French efforts at privatisation in the 1980s. Favoured domestic groups – some of them state-controlled – took stakes in companies being privatised. Often they ended up with diversified portfolios in industries that had little or no connection with their core business.

Now some French companies are unwinding these positions as they restructure. So is Italy pursuing a policy that some investors say has become outdated?

In the Italian government's case, its aims are broadly similar to those of the French: to ensure a smooth transition for a company from state to private ownership and to prevent hostile foreign takeovers in its immediate aftermath.

But in practice, bankers and fund managers say, there are key differences between what is being offered in the case of Telecom Italia and the original concept of the *noyaux durs*.

A French core shareholder group may have expected to be granted wide powers, including board representation. While details of what rights and obligations the core group at Telecom Italia will enjoy have not been revealed, such inducements might not be offered since the company is listed and has a large group of shareholders already.

However, members of the group will not be allowed to act in concert. It also remains to be seen whether they get their stakes at a discount and get board representation. They may have to pay a premium for such a sizeable chunk of an issue that is expected to be heavily oversubscribed domestically and abroad.

In addition, if the likes of AT&T, Unisource, Mannesmann, the Italian banks and private-sector Italian investors – the type of core shareholder group the Treasury would like to assemble – agree to become core shareholders, they cannot sell for three years.

Some bankers argue that if these restrictions apply to Telecom Italia they will substantially reduce the power base of the core group compared to that enjoyed by French *noyaux durs*. However, much will depend on who the shareholders are – the private placing is expected to be completed by the end of September.

Telecom Italia has a market value of more than L7,000bn, and the 44.7 per cent in state hands – all of which is being sold – is valued at $17bn.

Allocating a third of the issue to the core group will automatically mean fewer shares for retail investors and pension fund managers. This might not be a bad thing, some say, given the massive size of the transaction.

They add that if strategic investors are willing to be locked in for three years with relatively few potential privileges, it should send a positive signal about Telecom Italia. This is presumably what the Italian government hopes to see.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY AUGUST 15 1997								THURSDAY AUGUST 14 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 31/12/96	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/96	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	233.95	5.4	215.43	173.11	221.16	209.10	12.5	3.64	229.94	214.84	171.35	220.69	205.79	243.87	199.41	199.41
Austria (25)	195.98	3.2	180.47	145.02	185.26	185.15	21.8	1.77	193.03	180.36	143.85	185.27	185.15	206.00	174.70	179.20
Belgium (26)	242.44	6.5	223.24	179.39	229.18	224.44	25.8	3.04	238.84	223.18	177.98	229.23	224.44	261.11	213.82	215.91
Brazil (30)	272.07	43.4	250.53	201.32	257.18	544.62	50.1	1.35	286.70	267.87	213.65	275.16	573.11	322.44	172.64	180.67
Canada (126)	213.98	12.7	187.04	158.33	202.27	215.31	14.3	1.67	216.39	202.17	161.25	207.68	217.97	224.03	159.78	159.78
Denmark (32)	387.17	10.0	356.52	286.49	366.00	364.87	29.1	1.40	383.90	358.86	286.08	368.46	387.17	421.25	315.48	315.48
Finland (28)	302.65	23.2	278.89	223.95	286.10	346.30	45.8	1.59	304.42	284.43	226.85	292.17	353.18	314.06	205.96	208.87
France (83)	226.18	5.7	208.28	167.37	213.81	217.39	24.5	2.42	222.76	208.18	166.00	213.79	217.39	237.57	167.30	188.26
Germany (59)	226.66	19.3	208.71	167.71	214.26	214.26	40.6	1.33	227.09	212.18	169.23	217.95	217.95	238.42	172.93	175.87
Hong Kong, China (66)	555.83	9.6	511.83	411.29	525.44	552.97	8.8	2.78	568.66	531.31	423.76	545.76	565.72	590.03	421.41	426.84
Indonesia (27)	176.18	-22.8	162.21	130.35	166.53	310.97	-6.0	2.09	188.53	176.15	140.49	180.94	322.10	254.90	176.16	183.62
Ireland (17)	374.48	13.9	344.84	277.10	354.00	360.92	31.8	2.70	376.16	351.45	280.31	361.02	368.14	378.16	284.36	287.41
Italy (53)	99.88	19.6	81.66	73.91	94.42	132.46	39.7	1.78	98.27	91.81	73.23	94.31	132.46	105.79	73.28	76.29
Japan (485)	132.82	3.0	122.39	98.35	125.65	98.35	3.9	0.80	131.33	122.70	97.86	126.04	97.86	149.58	107.57	149.04
Malaysia (107)	396.91	-34.2	365.49	293.69	375.20	425.34	-27.5	1.63	400.97	374.63	298.80	384.83	429.31	660.85	394.40	541.80
Mexico (27)	1779.82	45.9	1638.81	1316.98	1682.48	15112.34	43.8	1.48	1797.09	1679.06	1339.18	1724.76	15265.86	1864.38	1136.59	1268.27
Netherlands (19)	391.88	16.6	360.65	289.97	370.45	368.25	38.0	2.18	403.89	377.36	300.96	387.64	383.33	431.86	297.04	298.63
New Zealand (14)	88.61	-3.4	81.60	65.57	83.77	73.26	8.2	3.97	86.96	81.25	64.80	83.46	71.91	95.47	81.84	81.84
Norway (41)	323.14	9.3	297.56	239.11	305.47	332.19	29.7	1.96	322.38	301.21	240.24	309.41	334.94	330.72	247.39	247.99
Philippines (22)	130.34	-36.0	120.02	96.45	123.22	193.57	-27.5	1.07	134.57	125.73	100.28	129.15	197.80	214.07	130.34	209.82
Singapore (42)	330.24	-21.3	304.10	244.36	312.18	230.79	-14.7	1.33	332.20	310.36	247.55	318.83	232.46	448.01	330.24	388.23
South Africa (44)	345.26	8.4	317.92	255.47	326.37	353.80	8.7	2.40	351.11	326.05	261.64	336.98	359.42	370.12	301.49	323.82
Spain (33)	245.99	11.8	226.51	182.02	232.54	286.93	32.5	2.31	242.73	226.79	180.98	232.97	286.99	276.05	179.01	176.26
Sweden (49)	495.32	17.4	456.10	366.51	468.23	583.04	36.7	1.77	497.92	465.22	371.05	477.89	583.45	512.39	352.11	365.14
Switzerland (33)	297.48	24.7	273.93	220.12	281.21	276.80	39.4	1.20	297.37	277.84	221.60	285.40	280.69	329.59	231.69	247.12
Thailand (42)	57.18	-40.3	52.65	42.31	54.05	70.46	-26.1	4.40	58.42	54.58	43.53	56.07	71.53	146.89	47.55	142.85
United Kingdom (213)	309.22	9.2	284.74	228.81	292.31	284.74	16.1	3.50	311.60	291.14	232.20	299.06	291.14	325.26	241.12	241.12
USA (538)	366.62	21.5	337.59	271.28	346.57	366.62	21.5	1.68	375.62	350.95	279.91	360.61	375.62	380.87	264.75	269.93
Americas (821)	335.43	21.4	308.87	248.20	317.08	282.56	21.6	1.68	343.52	320.98	255.99	329.70	289.39	350.95	242.47	248.76
Europe (713)	271.40	13.2	249.91	200.82	256.56	261.49	27.9	2.43	272.02	254.15	202.71	261.07	265.95	284.44	212.61	212.90
Nordic (150)	421.58	18.2	388.21	311.95	398.53	433.77	36.0	1.70	422.68	394.92	314.98	405.67	440.53	437.88	307.34	309.16
Pacific Basin (881)	150.15	1.0	138.26	111.10	141.94	112.50	2.7	1.29	149.11	139.32	111.12	143.11	112.31	168.27	127.18	160.96
Euro-Pacific (1594)	200.77	7.6	184.87	148.56	189.79	169.55	16.0	1.93	200.42	187.26	149.35	192.36	170.04	209.12	173.55	182.48
North America (764)	357.20	21.0	328.92	264.31	337.66	356.58	21.1	1.68	365.78	341.71	272.54	351.02	365.12	379.38	258.56	263.15
Europe Ex. UK (500)	244.78	15.7	225.40	181.13	231.39	242.20	35.1	1.83	244.59	228.52	182.27	234.75	245.59	256.73	191.01	192.70
Pacific Ex. Japan (396)	300.07	-4.8	276.32	222.04	283.66	271.96	0.0	2.78	302.80	282.92	225.65	290.62	274.31	320.65	280.04	280.04
World Ex. US (1621)	204.64	8.5	188.43	151.42	193.44	175.30	16.3	1.91	204.62	191.18	152.48	196.39	176.98	212.89	178.94	183.63
World Ex. UK (2246)	251.21	14.8	231.32	185.88	237.47	224.58	18.8	1.62	254.21	237.51	189.44	243.99	228.19	262.69	204.12	207.40
World Ex. Japan (1974)	319.34	16.7	294.06	236.29	301.87	313.49	21.6	2.06	324.46	303.15	241.78	311.40	320.03	334.85	242.70	244.31
The World Index (2459)	256.21	14.3	235.93	189.58	242.20	230.17	18.6	1.81	259.17	242.14	193.16	248.74	234.02	267.21	207.64	210.34

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 128.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Indonesia and Philippines June 28, 1996 = 214.74 (US $ Index), 204.33 (Pound Sterling) and 184.40 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 15/8/97: Deletions: Almanij (V V P R) (Belgium) and Brascan Ltd. Class 'A' (Canada). Name changes: Edper Group Ltd. Class 'A' to EdperBrascan Corp. Class 'A' (Canada) and James River to Fort James Corp. (USA). CONSTITUENT CHANGE WITH EFFECT 18/8/97: Deletion: Nynex Corp. (USA). Markets closed 15/8/97: Austria, Belgium, France, Italy, and Spain.

MARKETS: This Week

NEW YORK By Richard Tomkins

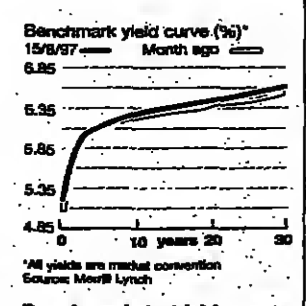
After last week's intense volatility in US markets, culminating in Friday's battering of blue-chip stocks, the focus of attention in the next few days will be tomorrow's meeting of the Federal Open Market Committee.

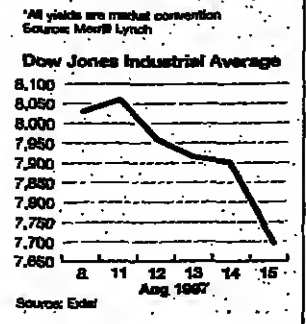
With the issues little changed since the FOMC's last session in early July, most analysts are predicting that the Fed will leave the funds rate target unchanged at 5½ per cent: but that is unlikely to be enough to calm investors' jitters about the longer-term outlook for growth and inflation.

Daily swings of 1-2 per cent in share prices and 1 per cent in bond prices have now become common, reflecting investor scepticism that today's combination of strong growth combined with low inflation can persist much longer. The question now is not so much whether the Fed will increase rates again, but when. Salomon Brothers predicts that it could be as early as September.

In a quiet week for important statistics, there may be little in the way of strong guidance on the economic outlook. Tomorrow's figure for July housing starts is expected to be 1.45m, the same as the June figure, and Wednesday's figures for the June trade deficit are expected to show that the deficit was slightly down from $10.2bn in May to $10bn, with imports unchanged and exports rising a little.

Thursday brings the publication of the Philadelphia Federal Reserve business survey for August, with analysts polled by Standard & Poor's MMS predicting a decline in the index from 28.1 in July to 23.





LONDON By Philip Coggan

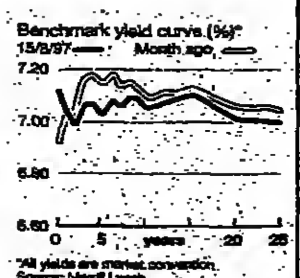
Traders in London will be hoping to catch their breath after the turmoil of last Friday, when the FTSE 100 index suffered its biggest points fall since the crash of 1987 and endured its largest percentage decline for five years. Thin August markets are likely to exacerbate the potential for volatility.

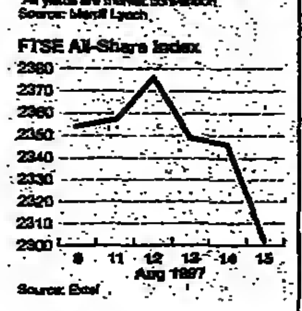
The international background will be uppermost in investors' minds, with nervousness about a turn on Wall Street allied to fears about a rise in German rates, which have kept European markets on the back foot. The Bundesbank council meets on Thursday and there is an outside chance of a rate rise from the Federal Reserve open market committee meeting on Tuesday.

Ironically, the sharp decline in the Footsie has been accompanied by a rebound in the 250 and SmallCap indices, both of which have benefited from the decline in the pound against the D-Mark after the Bank of England hinted that interest rates had paused for the time being.

In economic terms, the main focus will be on Tuesday's retail sales figures and Thursday's Confederation of British Industry survey. The UK economy has been marked in recent months by a sharp divergence between the consumer and manufacturing sectors, and analysts will be looking to see if this continues. The gilts market will also be interested in July's public sector borrowing requirement, out today.

The results season enters a quiet period, with main interest in Thursday's figures from Halifax – the first since it converted to a bank – and Rentokil Initial's interims on Wednesday.





FRANKFURT By Graham Bowley

The Bundesbank said last week it would no longer commit itself in advance to specifying the conditions of its weekly repo tender, another strong hint that it is preparing the market for rising German interest rates.

The central bank would drop the policy it has followed for so long of specifying for weeks in advance whether the repo rate would be fixed or flexible, Johann Wilhelm Gaddum, vice-president, told a German newspaper.

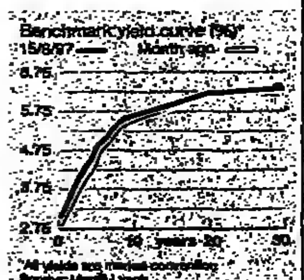
Last week the Bundesbank kept the repo rate on hold and failed to move to a variable-rate policy – against the expectations of many economists.

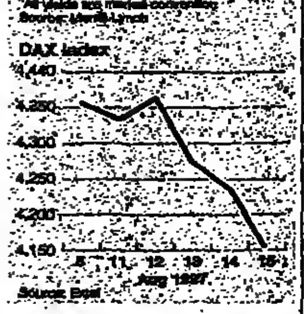
But several analysts still believe the bank could begin to raise interest rates soon to head off future inflationary pressures posed by the weak D-Mark and the strong rally in German share prices.

The Bundesbank, which last week took a hard line on inflation in its monthly report, is due to hold the first council meeting since its summer break on Thursday, when it could make more pronouncements on inflationary conditions and interest rates.

Fear of an interest rate rise put German shares into a tail-spin on Friday after nervous trading throughout the week. The DAX index of top German companies closed at 4,152.86 at the end of floor-trading and at 4,077.49 at the close of electronic trading, down about 3 per cent.

Among the worst hit were the big chemical companies after two of them, Hoechst and BASF, disappointed investors with their results. Bayer, the other big chemicals company, is due to publish its half-year results on Tuesday.





TOKYO By [illegible]

Many investors will return to the markets this week after the holiday period, when volumes thinned and trading was dominated by large foreign and domestic participants. In equities, caution is likely to prevail, with investors still digesting last Monday's 4 per cent plunge in the Nikkei 225 average and watching to see if New York and other markets continue downward.

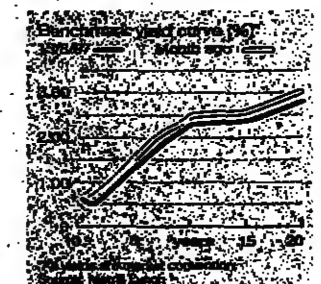
Traders and analysts say the reason for last Monday's stock market rout was that too many negative factors converged at once. The slide followed a string of weak economic data that heightened fears about corporate earnings prospects.

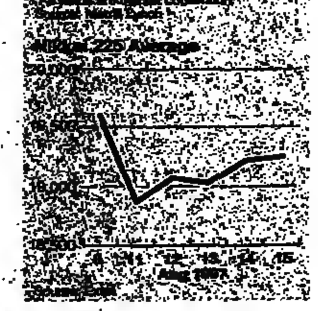
Share prices had rebounded modestly by the end of the week, with the 225 index up 103.41 on Friday to 19,326.03 – well above Monday's close of 18,824.18 but nearly 300 points lower than the previous week's close of 19,604.46.

With little significant economic data due until the end of the month, equities will be influenced in the short term by the New York markets and US economy, currency movements and domestic corporate news.

In the bond market, analysts expect Japanese government bond futures and cash bonds to resume their bull run after Friday's fall following strong gains earlier in the week.

The yield on the 10-year JGB fell to a record intraday low of 2.065 per cent on Friday, but rose to close at 2.080 per cent, with the price down from 106.40 to 106.36. But given the weakness in economic fundamentals, the yield is likely to breach 2.00 per cent as early as mid-week, predicts William Campbell, fixed income analyst at J. P. Morgan.





COMMODITIES By Maggie Urry

Revaluation on the cards

Another revaluation of the green pound is on the cards this week, barring a sudden sharp fall in sterling. Steve Knight, currency expert at the Home Grown Cereals Authority, said "little can stop this revaluation now".

He predicted the new green rate, at which European Union aid payments are translated from Ecu into sterling, would be 69.62p to the Ecu, against 72.0829p set on June 5 – a revaluation of about 3.5 per cent.

The new rate is due to be set on Wednesday afternoon, when the last of five 10-day confirmation periods ends, and would come into effect at midnight that night.

This would be the fourth revaluation this year and is sure to renew calls from farmers for the UK government to seek compensation under EU rules. Other countries have secured compensation packages, but the UK has been reluctant to apply as part of the money would have to come from government funds.

A rising green rate causes reductions in the sterling value of EU aid payments. Mr Knight said if his prediction of the new rate was correct, the intervention price for November wheat would fall from the current £86.64 a tonne to just over £83.

Other agricultural prices, such as milk, would be affected, as would the value of compensation payments to cattle farmers sending animals for slaughter under the "over 30-month scheme" designed to remove BSE from the food chain. Direct payments, such as area aid payments, have already been set for the year, however.

After the last revaluation, in June, the National Farmers Union said the combined falls in aid payments would cost UK farmers more than £1.5bn in 1997. Adding to a poorer harvest than last year, the problems in the beef industry and other pressures, UK farm incomes are expected to fall sharply this year.

However, farmers might be relieved that recent weakness in the pound has saved them from a much larger revaluation.

OTHER MARKETS Compiled by Jeffrey Brown

AMSTERDAM

Dutch shares will casting around for a base level after last week's dramatic shake-out. There should be good corporate news from the batch of market heavyweights reporting six-month results, and having tumbled by 10 per cent last week the leading AEX index is now 12.5 per cent below its August peaks.

But sentiment has been severely dented by recent events and all eyes will be on Wall Street today. Much of the recent volatility stems from seasonally low trading volumes, which traditionally stay at current levels until the end of August. "There are signs that the institutions have withdrawn to the sidelines," said one broker on Friday.

Four companies within the AEX index report this week, starting on Wednesday with shipping leader Nedlloyd. But the big guns come out on Thursday and Friday when ABN Amro and Aegon, respectively, will provide investors with a precursor to the following week's numbers from rival financial heavyweight, ING.

Both ABN and Aegon are widely expected to turn in pleasingly strong six-month earnings growth, but both sets of shares are said to be well up with events, even after last week's sell-off.

PARIS

The CAC-40 index lost 4.5 per cent last week to end 6 per cent below its all-time high. Sentiment was dominated by Wall Street, concerns about German interest rates and the dollar. The market shrugged off good corporate news, notably from Renault and Axa-UAP.

Trading last week was limited to four days and volumes will stay low for the rest of the month, suggesting the market will remain vulnerable to international setbacks for equities.

With no important corporate or economic data due this week, the market will remain preoccupied with German interest rates and the dollar.

This week's raft of German economic indicators will be eagerly tracked by market participants. According to a recent note from Nikko Securities, the German economy has now gained enough momentum for the Bundesbank to raise interest rates in response to the weaker D-Mark and higher inflation.

ZURICH

Corporate restructuring came to the Swiss stock market last week and was found wanting. The planned SFr14.3bn takeover of the Winterthur insurance company by CS Group was given a broad thumbs down by investors – a reaction that is likely to weigh heavily on sentiment this week.

Both the CS and Winterthur share prices have fallen steeply since the deal was announced last Monday – CS has come off almost 11 per cent – and doubts about the takeover's ability to survive in its present form have taken hold. There is a strong feeling among brokers that Winterthur shareholders will fail to ratify the deal at next month's meeting.

It all made for an unhappy five days trading – the SMI index shed more than 6 per cent – and the market is unlikely to throw off its black mood in a hurry.

HONG KONG

Currency worries made for confused trading in the Hong Kong stock market last week and there is likely to be every incentive for renewed selling today, given that on Friday Wall Street ran up its second-biggest daily fall loss on record.

No stranger to volatility, Hong Kong shares look set for a bumpy ride. A property-led recovery looks a possibility. The sector's discount to net asset values was 35 per cent before Friday's 2.4 per cent drop in the Hang Seng index. The more bullish brokers suggest there is ample scope for bargain hunting in the sector.

CURRENCIES By Richard Adams

Market backs Germany to raise rates first

Tomorrow's US Federal Reserve monetary policy meeting and Thursday's Bundesbank council meeting promise to hold the currency markets in thrall this week, after a period of jostling between the D-Mark and the US dollar.

Although the chances are slim that either body will raise interest rates, and thereby spark a run on their respective currency, sentiment late last week suggested Germany is the market's favourite to make the first move.

But even then there is a strong body of opinion that discounts a Bundesbank rate rise. Marc Chandler, an analyst at Deutsche Morgan Grenfell, said: "There is no compelling need to adjust monetary policy."

He cites the need for a lower D-Mark to rebalance the German economy, and the lack of strong price pressures. The recent rise in the cost of living was the result of "one-off factors".

"For monetarists, note that money supply growth is slowing. For the Keynesians, note that there is much excess capacity in Germany," Mr Chandler said.

Elsewhere in Europe, UK expectations of another base rate rise could follow a very strong retail sales report on Wednesday.

The south-east Asian emerging markets could continue to add spice to the yen and the dollar this week, to the yen's detriment. The unwinding of managed currencies in Thailand, Malaysia and Indonesia, accompanied by some steep falls, has hurt Japanese multinationals with investments in the region.

The last of the remaining managed currencies in the region, the Hong Kong dollar, has come under steady attack and fallen to its lowest level for the year.

Avinash Persaud, at J.P. Morgan, says a second phase of currency turmoil could be on its way in Asia, as domestic corporates and banks respond to uncertain new regimes by reducing foreign currency borrowings.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Cable & Wireless (UK)	Optus Communications (Australia)	Telecoms	$730m	Gov't OKs stake increase
SCA (Sweden)	PWA (Germany)	Forest products	$300m	Closer integration sought
NBTY (US)	Holland & Barrett (UK)	Health Foods	$160m	Gehe disposal
Republic Industries (US)	EuroDollar (UK)	Car rental	$152m	Recommended offer
Bunzl (UK)	Grocery Supply (US)	Distribution	$88m	Disposables deal
Danisco (Denmark)	Borthwicks (UK)	Food	$58.5m	Consolidation
Marley (UK)	Flexco (US)	Flooring	$39.2m	Complementary purchase
James Crean (Ireland)	Kralis Bros Food (US)	Food	$7.5m	Ready-to-cook move
Watmoughs (UK)	Altamira (Spain)	Printing	$4m	Deferred payment

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, August 15, 1997. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7847.73	4750.00	2612.33	4057.75
Albania	(Lek)	280.954	174.500	95.9685	149.069
Algeria	(Dinar)	97.5207	60.5700	33.3113	51.7427
Andorra	(French Fr)	9.8646	6.1270	3.3697	5.2341
	(Sp Peseta)	247.899	153.970	84.6803	131.531
Angola	(Readj Kwanza)	317044.5	196916.0	108298.8	168216.0
Antigua	(E Carib $)	4.3471	2.7000	1.4849	2.3065
Argentina	(Peso)	1.6092	0.9995	0.5497	0.8538
Armenia	(Dram)	809.291o	502.650	276.440	429.395
Aruba	(Florin)	2.8820	1.7900	0.9844	1.5291
Australia	(Aus $)	2.1636	1.3438	0.7391	1.1480
Austria	(Schilling)	20.5992	12.7941	7.0365	10.9295
Azerbaijan	(Manat)	6388.86o	3968.00	2182.26	3389.71
Azores	(Port Escudo)	296.845	184.370	101.400	157.500
Bahamas	(Bahama $)	1.6101	1	0.5500	0.8543
Bahrain	(Dinar)	0.6070	0.3770	0.2073	0.3221
Balearic Is	(Sp Peseta)	247.899	153.970	84.6803	131.531
Bangladesh	(Taka)	71.0033	44.1000	24.2541	37.6730
Barbados	(Barb $)	3.2383	2.0113	1.1061	1.7182
Belarus	(Rouble)	69774.8o	43336.9	23833.8	37021.1
Belgium	(Belg Fr)	60.4413	37.5400	20.6462	32.0690
Belize	(B $)	3.2201	2.0000	1.0999	1.7085
Benin	(CFA Fr)	986.480	612.700	336.972	523.407
Bermuda	(Bermudian $)	1.6101	1	0.5500	0.8543
Bhutan	(Ngultrum)	57.4869	35.7050	19.6370	30.5015
Bolivia	(Boliviano)	8.4850	5.2700	2.8984	4.5020
Botswana	(Pula)	5.9527	3.6989	2.0332	3.1581
Brazil	(Real)	1.7510	1.0875	0.5981	0.9290
Brunei	(Brunei $)	2.4417	1.5165	0.8340	1.2955
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Cuba	(Cuban Peso)(1)	33.8111	21.0000	11.5493	17.9395
Cyprus	(Cyprus £)	0.8622	0.5355	0.2945	0.4574
Czech Rep.	(Koruna)	54.3915	33.7825	18.5797	28.8591
Denmark	(Danish Krone)	11.1500	6.9252	3.8087	5.9159
Djibouti Rep	(Djib Fr)	286.136	177.720	97.7397	151.820
Dominica	(E Carib $)	4.3471	2.7000	1.4849	2.3065
Dominican Rep	(D Peso)	22.6937	14.0950	7.7516	12.0408
Ecuador	(Sucre)	6597.18o	4097.50	2253.48	3500.34
	(Sucre)	6565.76e	4078.00	2242.75	3483.68
Egypt	(Egyptian £)	5.4641	3.3938	1.8664	2.8992
El Salvador	(Colon)	14.0960	8.7550	4.8149	7.4791
Equat'l Guinea	(CFA Fr)	986.480	612.700	336.972	523.407
Estonia	(Kroon)	23.4105	14.5402	7.3968	12.4212
Ethiopia	(Ethiopian Birr)	10.6286	6.6015	3.6306	5.6394
Falkland Is	(Falk £)	1	0.6211	0.3416	0.5306
Faroe Is	(Danish Krone)	11.1500	6.9252	3.8087	5.9159
Fiji Is	(Fiji $)	2.3183	1.4399	0.7919	1.2301
Finland	(Markka)	8.7783	5.4522	2.9986	4.6576
France	(Fr)	9.8648	6.1270	3.3697	5.2341
Fr. Cty/Africa	(CFA Fr)	986.480	612.700	336.972	523.407
Fr. Guiana	(Local Fr)	9.8648	6.1270	3.3697	5.2341
Fr. Pacific Is	(CFP Fr)	182.111	113.108	62.2058	96.6248
Gabon	(CFA Fr)	986.480	612.700	336.972	523.407
Gambia	(Dalasi)	16.0603	9.9750	5.4859	8.5213
Germany	(D-Mark)	2.9275	1.8183	1	1.5530
Ghana	(Cedi)	3530.04	2192.50	1205.83	1872.97

		£ STG	US $	D-MARK	YEN (X 100)
Gibraltar	(Gib £)	1	0.6211	0.3416	0.5306
Greece	(Drachma)	459.677	285.505	157.022	243.898
Greenland	(Danish Krone)	11.1500	6.9252	3.8087	5.9159
Grenada	(E Carib $)	4.3471	2.7000	1.4849	2.3065
Guadeloupe	(French Fr)	9.8648	6.1270	3.3697	5.2341
Guam	(US $)	1.6101	1	0.5500	0.8543
Guatemala	(Quetzal)	9.5941	5.9589	3.2772	5.0906
Guinea	(Fr)	890.518	553.100	304.185	472.490
Guinea-Bissau	(CFA Fr)(3)	986.480	612.700	336.972	523.407
Guyana	(Guyanese $)	229.110	142.300	78.2599	121.562
Haiti	(Gourde)	26.5753	16.5059	9.0777	14.1004
Honduras	(Lempira)	21.2448	13.1950	7.2568	11.2720
Hong Kong	(HK $)	12.4759	7.7488	4.2617	6.6195
Hungary	(Forint)	315.779	196.130	107.866	167.547
Iceland	(Icelandic Krona)	117.019	72.6800	39.9725	62.0878
India	(Indian Rupee)	57.4869	35.7050	19.6370	30.5015
Indonesia	(Rupiah)	4632.93	2877.50	1582.57	2458.14
Iran	(Rial)	4830.15u	3000.00	1649.89	2562.79
Iraq	(Iraqi Dinar)	0.5008o	0.3109	0.1710	0.2656
Iraq	(Iraqi Dinar)	1932.09m	1200.00	659.957	1025.12
Irish Rep	(Punt)	1.1073	0.6840	0.3762	0.5843
Israel	(Shekel)	5.8506	3.5097	1.9303	2.9982
Italy	(Lira)	2858.89	1775.65	976.571	1516.87
Jamaica	(Jamaican $)	55.4662	34.4500	18.9463	29.4294
Japan	(Yen)	188.473	117.060	64.3806	100
Jordan	(Jordanian Dinar)	1.1418	0.7090	0.3899	0.6057
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Malaysia	(Ringgit)	4.4800	2.7825	1.5303	2.3770
Maldive Is	(Rufiya)	18.9503	11.7700	6.4731	10.0547
Mali Rep	(CFA Fr)	986.480	612.700	336.972	523.407
Malta	(Maltese Lira)	0.6407	0.3979	0.2188	0.3399
Martinique	(Local Fr)	9.8648	6.1270	3.3697	5.2341
Mauritania	(Ouguiya)	249.043	154.680	85.0708	132.137
Mauritius	(Maur Rupee)	35.0911	21.7950	11.9868	18.6187
Mexico	(Mexican Peso)	12.5037	7.7660	4.2711	6.6342
Moldova	(Leu)	7.3339	4.5550	2.5051	3.8912
Monaco	(French Fr)	9.8648	6.1270	3.3697	5.2341
Mongolia	(Tugrik)	1305.68	810.900	445.966	692.722
Montserrat	(E Carib $)	4.3471	2.7000	1.4849	2.3065
Morocco	(Dirham)	15.8960	9.8750	5.4309	8.4359
Mozambique	(Metical)	18393.2	11424.0	6282.79	9759.10
Namibia	(S A Rand)	7.5508	4.6898	2.5793	4.0063
Nauru Is	(Australian $)	2.1636	1.3438	0.7391	1.1480
Nepal	(Nepalese Rupee)	91.6923	56.9500	31.3205	48.6503
Netherlands	(Guilder)	3.2960	2.0477	1.1262	1.7493
N'nd Antilles	(A/Guilder)	2.8820	1.7900	0.9844	1.5291
New Zealand	(NZ $)	2.5069	1.5570	0.8563	1.3301
Nicaragua	(Gold Cordoba)	15.3882	9.5545	5.2546	8.1621
Niger Rep	(CFA Fr)	986.480	612.700	336.972	523.407
Nigeria	(Naira)	35.2376o	21.8860	12.0365	18.6964
	(Naira)	131.783m	81.8500	45.0158	69.9214
Norway	(Nor. Krone)	12.1940	7.5737	4.1654	6.4699
Oman	(Rial Omani)	0.6200	0.3851	0.2118	0.3289

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	65.1741	40.4795	22.2629	34.5801
Panama	(Balboa)	1.6101	1	0.5500	0.8543
Papua New Guinea	(Kina)	2.2756	1.4134	0.7773	1.2074
Paraguay	(Guarani)	3509.91	2180.00	1198.92	1862.29
Peru	(New Sol)	4.2602	2.6460	1.4552	2.2604
Philippines	(Peso)	47.9796	29.8000	16.3894	25.4570
Pitcairn Is	(£ Sterling)	1	0.6211	0.3416	0.5306
	(NZ $)	2.5069	1.5570	0.8563	1.3301
Poland	(Zloty)	5.6183	3.4895	1.9192	2.9809
Portugal	(Escudo)	296.845	184.370	101.400	157.500
Puerto Rico	(US $)	1.6101	1	0.5500	0.8543
Qatar	(Riyal)	5.8611	3.6403	2.0020	3.1098
Reunion Is. de la	(F/Fr)	9.8648	6.1270	3.3697	5.2341
Romania	(Leu)	12011.0	7460.00	4102.85	6372.80
Russia	(Rouble)	9361.84m	5814.50	3197.86	4967.11
Rwanda	(Fr)	497.505	309.000	169.939	263.967
St Christopher	(E Carib $)	4.3471	2.7000	1.4849	2.3065
St Helena	(£)	1	0.6211	0.3416	0.5306
St Lucia	(E Carib $)	4.3471	2.7000	1.4849	2.3065
St Pierre & Miquelon	(F/Fr)	9.8648	6.1270	3.3697	5.2341
St Vincent	(E Carib $)	4.3471	2.7000	1.4849	2.3065
San Marino	(Italian Lira)	2858.89	1775.65	976.571	1516.87
Sao Tome	(Dobra)	3840.18	2385.13	1311.74	2037.53
Saudi Arabia	(Riyal)	6.0387	3.7507	2.0628	3.2040
Senegal	(CFA Fr)	986.480	612.700	336.972	523.407
Seychelles	(Rupee)	8.2636	5.1325	2.8227	4.3845
Sierra Leone	(Leone)	1255.84	780.000	428.972	666.325
Singapore	($)	2.4417	1.5165	0.8340	1.2955
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Tunisia	(Dinar)	1.8415	1.1436	0.6290	0.9771
Turkey	(Lira)	263906.7	163850.0	90114.1	139971.0
Turks & Caicos	(US $)	1.6101	1	0.5500	0.8543
Tuvalu	(Australian $)	2.1636	1.3438	0.7391	1.1480
Uganda	(New Shilling)	1754.95	1090.00	599.461	931.146
Ukraine	(Hryvnia)	2.9930	1.8527	1.0189	1.5827
U A E	(Dirham)	5.9136	3.6729	2.0200	3.1376
United Kingdom	(£)	1	0.6211	0.3416	0.5306
United States	(US $)	1.6101	1	0.5500	0.8543
Uruguay	(Peso Uruguayo)	15.5692	9.6700	5.3182	8.2607
Vanuatu	(Vatu)	186.041	115.550	63.5501	98.7101
Vatican	(Lira)	2858.89	1775.65	976.571	1516.87
Venezuela	(Bolivar)	796.733v	494.850	272.157	422.732
Vietnam	(Dong)	18824.7	11692.0	6430.18	9988.04
Virgin Is-British	(US $)	1.6101	1	0.5500	0.8543
Virgin Is-US	(US $)	1.6101	1	0.5500	0.8543
Western Samoa	(Tala)	4.2003	2.6088	1.4348	2.2286
Yemen (Rep of)	(Rial)	209.308r	130.000	71.4964	111.054
Yugoslavia	(New Dinar)	9.1906	5.7084	3.1394	4.8765
Zambia	(Kwacha)	2136.15	1326.00	730.373	1134.46
Zimbabwe	($)	18.8487	11.7075	6.4389	10.0013
ECU	(ECU)	1.4592	0.9249	0.5087	0.7901
SDR	(SDR)	1.16791	0.737176	0.401949	0.636594

Abbreviations: (u) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Market rate now shown for Cuba (2)Name changed from Zaire on May 19th 1997, currency scheduled to change to Congolese Francs (3) Guinea-Bissau adopted the CFA Franc to replace the Peso on 1/5/97. FT enquiries to Business Research Centre 0171 256 5150. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365.

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Friday, August 15, 1997

EMERGING MARKETS By Greta Steyn

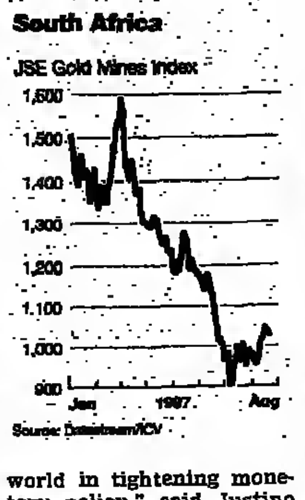
JSE's bulls look for rate cut

Hardly a day goes by in the South African financial markets without someone criticising Chris Stals, the governor of the Reserve Bank, for his tough approach to monetary policy. South Africa's would-be "Bundesbanker" is sometimes seen as the only obstacle to a roaring bull market on the Johannesburg Stock Exchange.

Needless to say, it is not that simple. But the market is becoming increasingly impatient about an interest rate cut – especially so since the easing of exchange controls appears to have passed off smoothly.

The JSE has had a tepid performance so far this year. Its rise of about 11 per cent in dollar terms is nothing to write home about; aside from some Asian and east European countries, most emerging markets are enjoying a stock exchange party to which South Africa was not invited. Nevertheless, foreign investors are not disappointed and many portfolios remain overweight in South African shares.

"The key to what is going to happen on the JSE is interest rates. The advantage of South Africa over other markets is that it will not follow the rest of the world in tightening monetary policy," said Justine Roberts, at Deutsche Morgan Grenfell in London. The bank is targeting an all-share index of 8,400 in about a year, compared with Friday's close of 7,439.8.



South Africa's interest rates are very high in real terms – with inflation at 8.8 per cent, the real prime overdraft rate is about 11 per cent. Real interest rates will rise further as inflation falls towards 7 per cent this year.

"The risk is that interest rates have been too high for too long, and that would mean rates would have to come down aggressively," said Costa Vayenas, at UBS in London. Some analysts are even worried the economy, which will struggle to grow 2 per cent this year, could plunge into recession.

But there is one thing stopping Mr Stals from acting, South Africa's insatiable appetite for credit. The borrowing spree has kept private sector credit growth firmly above 16 per cent, way above the central bank's target of 10 per cent.

One of the reasons for the growing impatience over interest rates has been the surprisingly smooth easing of exchange controls.

From July 1, individuals were allowed to make foreign currency investments. The central bank estimated individuals took out some R144m in the first month.

The small outflow is remarkable. A year ago, when the rand was crashing, it would have been unthinkable. "It seems South Africans now believe the rand's depreciation will be in line with interest rate differentials," said James Cross, deputy governor of the Reserve Bank.

The smooth easing of controls on individuals was a boon for the JSE, as fears of asset sales to finance offshore investments faded.

But it is a different story for institutional investors, with combined assets of about R600bn. The easing of controls on them could have a severe impact on the JSE. That is why the government devised a mechanism – asset swaps – to protect the markets from a sell-off as domestic investors scramble to diversify offshore.

A South African institution invests abroad by swapping assets with a foreign investor; sales of shares by a domestic institution are matched by purchases by a foreign investor.

The measure has been hugely successful this year as the rand stabilised and foreign investor confidence grew. Mr Cross said the swaps this year already far exceeded R22bn, compared with R15bn for the whole of last year. The question now is: what will happen when institutions get more freedom and are allowed to sell assets without finding a foreign buyer first?

The market's overall performance has also not been helped by gold's dramatic fall from grace. Although bullion is becoming less and less important to the South African economy, the stock exchange still gets something of the old mining town buzz whenever gold looks like it might recover.

The gold index crashed from its peak this year of 1,588 at the end of February to a low of 898 last month and is struggling to claw its way back above 1,030. Bullion's failure to hold above $325 an ounce – from a peak of $368 in January – is casting doubts over the sector's ability to recover to vaguely respectable levels.

Gold shares could become attractive to those looking for rand hedges. But for now they have found alternative hedges. Michael Power, director for Africa and the Middle East at Barings Asset Management in London, sees value in the chemicals sector where fuels giant Sasol has caught investors' attention.

In a market which is bubbling along nicely rather than on the boil, investors are picking stocks carefully.

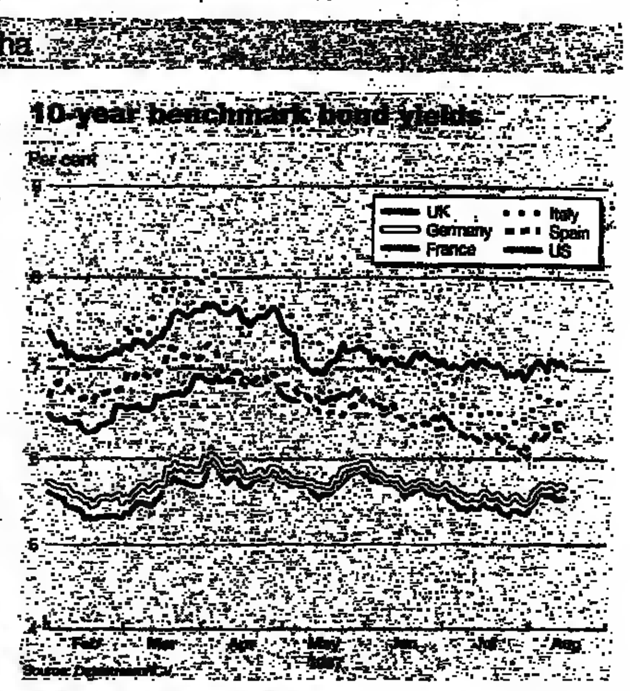
ING BARING SECURITIES EMERGING MARKETS INDICES

Index	15/8/97	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (449)	185.58	–5.51	–2.88	–6.92	–3.59	+25.47	+15.91
Latin America							
Argentina (22)	139.05	–1.77	–1.26	+4.27	+3.15	+31.92	+29.80
Brazil (22)	396.32	–10.11	–2.49	–25.10	–5.96	+135.29	+51.83
Chile (21)	220.84	–4.56	–2.02	–4.14	–1.84	+58.39	+35.94
Colombia (12)	260.71	+12.55	+5.06	+19.10	+7.91	+87.02	+50.10
Mexico (26)	118.47	–3.61	–2.96	+4.07	+3.55	+36.80	+45.05
Peru (12)	1,264.41	+6.15	+0.41	–96.76	–7.11	+257.19	+25.54
Venezuela (7)	91.51	–2.70	–2.86	–4.64	–4.83	+29.34	+47.18
Latin America (122)	206.21	–4.54	–2.15	–4.46	–2.12	+62.71	+43.70
Europe							
Czech Rep.(16)	83.14	+2.04	+2.52	+6.65	+8.70	–21.14	–20.27
Egypt (16)	192.57	+0.02	+0.01	–1.24	–0.64	+42.78	+28.56
Greece (19)	178.87	+3.75	+2.14	+4.58	+2.63	+66.56	+59.27
Poland (28)	322.88	+6.68	+2.11	+46.16	+16.68	–20.86	–6.07
Portugal (18)	202.35	+1.99	+0.99	+5.53	+2.81	+56.17	+38.42
Russia (9)	508.14	+1.49	+0.30	+82.98	+19.52	+392.11	+183.83
South Africa (28)	140.25	–5.47	–3.75	–6.77	–4.81	+10.36	+7.88
Turkey (27)	168.12	–5.50	–3.17	–16.60	–8.99	+43.08	+34.45
Europe (163)	142.96	–1.81	–1.25	+1.99	+1.41	+24.62	+20.80
Asia							
China (33)	87.58	+3.75	+4.47	+17.62	+25.18	+31.10	+55.06
Indonesia (26)	115.49	–25.28	–17.96	–47.08	–28.96	–40.94	–26.17
Korea (27)	92.79	+0.14	+0.16	–0.50	–0.54	+11.57	+14.25
Malaysia (20)	181.68	–7.73	–4.08	–34.42	–15.93	–98.74	–35.21
Pakistan (12)	91.40	–5.37	–5.54	+6.34	+6.20	+32.95	+56.36
Philippines (22)	215.84	–25.94	–10.73	–16.31	–7.03	–97.95	–31.21
Taiwan (30)	234.43	–5.51	–2.30	–8.02	–2.50	+48.99	+26.42
Thailand (28)	98.09	–3.89	–3.63	–3.77	–3.71	–57.07	–36.78
Asia (196)	195.22	–10.06	–4.90	–18.28	–8.56	–22.35	–10.27

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By Krishna Guha

Indian issuers in need of a sovereign



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.10	6.25	6.75
Overnight	n/a	n/a	3.01	3.18	6.63	n/a
Three month	5.31	0.47	3.18	3.25	6.78	7.06
One year	5.56	0.51	3.50	3.33	6.55	7.04
Five year	6.13	1.37	4.89	4.73	6.29	7.03
Ten year	6.28	2.32	5.67	5.58	6.68	7.05

[illegible] Source: Reuters.

Tata Electric, part of India's family-controlled Tata group, last week became the latest in a series of Indian companies to tap the international debt markets. It issued $300m of Yankee bonds in the US in two $150m tranches: one with a 10-year maturity, the other over 20 years.

The move follows last month's £150m offer by Reliance Industries – the first eurosterling issue by an Indian company – and a $150m floating-rate note from state-owned Indian Railways Finance.

This procession of issues was signalled earlier this year by India's decision to allow a number of its most creditworthy corporates to issue bonds overseas – providing they had a minimum maturity of 10 years.

State-owned industrial financing companies Power Finance and ICICI have also issued debt this year, as has Telco, the motor vehicle division of the Tata group. A further four issues are expected by the year-end.

The issuers have taken advantage of tightening emerging market spreads in the last 18 months. The J. P. Morgan Emerging Market Bonds index has narrowed from an average spread of more than 1,000 basis points in early 1996 to about 355 points.

Tata Electric's 20-year issue was priced to yield only 193 basis points over benchmark US Treasuries. Indian Railways' seven-year note, priced to yield 75 basis points over Libor, was 40 basis points tighter than its debut offering last year.

Matthew Panikar, managing director of Reliance Europe, says the euromarkets offer Indian corporates longer maturities and cheaper pricing. "There is not a lot of price differentiation between borrowers in India," he says.

India could be a big issuer of international debt. It has more than 7,500 listed companies, including a handful of blue chips with global reputations. But only the biggest have issued foreign debt. Regulatory restrictions and the lack of a sovereign benchmark have discouraged many companies.

William Rogers, managing director of debt capital markets at Chase Securities, which ran the book for Tata Electric, says Indian issuance this year will be "about $1.5bn–$2bn", mainly from state-owned companies in the utilities and infrastructure sectors.

India is rumoured to be discussing a euro-rupee issue by an international institution such as the World Bank or Asian Development Bank, but has no plans for a sovereign eurodollar issue.

In the absence of a such an issue, Indian corporate debt is priced in reference to long-standing issuers such as Reliance, and other global issuers in the same sector.

Investors agree a sovereign issue would raise awareness of Indian risk, and encourage the government to develop its own investor relations.

Awareness is limited, particularly among investment grade buyers. "One US insurance company asked me whether there was any chance of India going to war with China," recalls Mr Rogers. "It was part of their due diligence."

BRAZILIAN BONDS By Jonathan Wheatley

Redemptions to test falling spreads

Economic stability and growing investor confidence have reopened international bond markets to Brazilian borrowers in the financial and non-financial sectors.

But while the arrival of unfamiliar borrowers has led to an increase in spreads paid by the corporate sector, better-known issuers in the financial sector have seen their spreads fall steadily, as investors have become more confident that economic reforms begun in July 1994 will bring lasting stability.

The question borrowers face is whether this trend can continue, or whether the cost of borrowing will rise.

Spreads paid recently by Brazil's big banks show that investors rate them very close to Brazil's sovereign risk. This means spreads are unlikely to fall further ahead of an upgrade in country risk, and nobody expects that before the end of 1998.

Richard Seagal, at Santander Investments in New York, says Brazilian borrowers could lose out to others in the region if Argentina's risk receives the upgrade many expect in the next month or two. "Investors might decide Mexican or Chilean bonds are more interesting than Brazilian issues," he says. "I don't think we should expect an upgrade for Mexico, but that's a conclusion many investors will draw."

It may seem churlish to predict difficult times ahead, given the reception enjoyed by Brazilian issues in recent months. The success of the 30-year, $3bn sovereign global bond launched in June will help lengthen maturities for other borrowers, and indicates that the market for Brazilian paper is far from saturated.

Nevertheless, the volume of Brazilian issues falling due in the fourth quarter will be a test of the market's appetite. From $782m in August and $743m in September, redemptions will jump to $1.26bn in October, $1.8bn in November and $1.63bn in December. If present conditions continue, borrowers should face little difficulty rolling these issues over – but if they try to extend their borrowings, spreads may have to increase.

A reversal could also be sparked by worries over Brazil's current account deficit in the balance of payments. In the medium term, the shortfall will comfortably be covered by foreign capital inflows, but more and more economists are warning that the government must implement tough reforms to cut public spending before stability is threatened.

Government concern to finance the deficit with capital flows gave financial borrowers a boost last month. Banks borrowing overseas to lend at home may now invest in high-yielding treasury notes. The rush to borrow was in part responsible for a $2.7bn rise in foreign reserves in the first 10 days of August, to a record $63bn.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Ukraine(a)	450	Aug 1998	zero	91.30R	9.501	+325(Libor)	Nomura International
Federal Home Loan Banks(b)	250	Aug 2002	6.68§	100.00R	6.680	-	Paribas
City of Stockholm	150	Aug 2000	6.25	99.773R	6.335	+12(6%-Aug00)	Lehman Brothers Intl
MBNA MCCT 2, 97-1, A(d)★	637.5	Aug 2004	6.55(d)	99.7616R	6.79	+35(7¼%-Aug04)	Goldman Sachs & Co
Europa Partners(e)‡	250	Jul 2002	(e1,s)	99.979R	-	-	Paribas
Bank of Ireland(f)‡	175	Sep 2007	(f1)	99.945R	-	-	JP Morgan/Salomon
SudwestLB Capital Mkts(g)	125	Jul 2007	(g1)	100.075R	7.23	+75(6¼%-Aug07)	BZW
Imperial Chemical Inds‡	500	Sep 1998	(h)	99.9875R	-	-	Deutsche Morgan G'fell
Imperial Chemical Inds(h1)‡	500	Dec 1998	(h)	99.96R	-	-	Deutsche Morgan G'fell
Imperial Chemical Inds(h2)‡	500	Mar 1999	(h)	99.94R	-	-	Deutsche Morgan G'fell
Toronto-Dominion Bank‡	300	Sep 1999	(i)	100.02R	-	-	Salomon Brothers Intl
First USA CCMT, 97-6, A(m)	1.3bn	Jul 2002	6.42	99.7627R	6.67	+33(6¼%-Jun02)	JP Morgan Securities
First USA CCMT, 97-6, B(m)	117.5	Jul 2002	6.58	99.7411R	6.85	+50(6¼%-Jun02)	JP Morgan Securities
Premier AT, 97-2, A2(n1,s)	250	Nov 1998	6.01	99.9931R	6.094	+32(5¾%-Jul98)	Bear Stearns
Premier AT, 97-2, A3(n2,s)	235	Sep 2000	6.13	99.9825R	6.214	+26(6¼%-Mar00)	Bear Stearns
Premier AT, 97-2, A4(n3,s)	200	Jun 2001	6.25	99.9839R	6.335	+27(7¼%-Dec00)	Bear Stearns
Premier AT, 97-2, A5(n4,s)	190	Mar 2002	6.32	99.9748R	6.413	+28(WI 5yr)	Bear Stearns
Dove Tst, 97-800, A(o,s)★	475	Aug 2000	6.68‡	99.988	6.685	+65(WI 3yr)	JP Morgan Securities
Federal Home Loan Banks(p)	200	Aug 2002	6.711§	100.00R	6.711	-	Salomon Brothers Intl
Province of Tucuman(q,s)	200	Aug 2004	9.45	100.00R	9.79	+345(6⅜%-01)	Bear Stearns Intl
C Agricole Indosuez, Lon(r)	100	Aug 1998	7.125§	99.9573R	7.170	+160(T-bill)	Cdt Agricole Indosuez
Central European Media Ent(t)	100	Aug 2004	9.375§	99.845R	9.405	+312½(7¼-04)	Morgan Stanley DW
Lehman Brothers Holdings‡	250	Sep 2002	(v)	99.785R	-	-	Lehman Brothers Intl
SWISS FRANCS							
Sigma Finance Corp(w)	100	Dec 2000	2.00	100.30	-	-	Deutsche Morgan G'fell
City of Stockholm	100	Sep 2002	2.75	101.70	2.385	-	UBS
Deutsche Ausgleichsbank	150	Sep 2003	3.00	102.10	2.617	-	del Gottardo/von Ernst
D-MARKS							
Central European Media Ent(u)	100	Aug 2004	8.125§	99.52R	8.216	+312½(6¼-04)	Morgan Stanley DW
YEN							
CIBC(c)‡	20bn	Aug 2000	(c1)	100.00R	-	-	Tokyo-Mitsubishi Intl
STERLING							
National Westminster Bank	300	Sep 2015	7.875	98.936R	7.988	+82(8%-15)	NatWest Markets
CANADIAN DOLLARS							
Toronto-Dominion Bank(d,l)	100	Dec 2002	6.00	99.80R	6.03	-	TD Securities
RAND							
Eskom	7.5bn	Dec 2032	zero	2.14	11.51	-	Hambros Bank
DRACHMA							
World Bank	15bn	Sep 2002	(k)	99.95R	9.806	-	ABN Amro Hoare Govett

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ★Unlisted. §Semi-annual coupon and yield. R: fixed re-offer price. a) Issued on fiduciary basis via Bankers Trust Luxembourg. b) Callable on coupon dates from 20/8/98 at par. c) Y30bn launched 8/8/97 was increased to Y50bn. c1) 3-mth Libor -⅛%. d) Master Credit Card Trust. 5% cleanup call. Legal maturity: Jan 07. Av life: 6.98 yrs. Monthly coupons. d1) Class B: $58.25m, 1-mth Libor +31bp, par. e) Fungible with $1bn. No accrued. e1) 3-mth Libor +⅛%. f) Callable from Sep 02 at par. f1) 3-mth Libor +25bp to Sep 02, then +75bp. g) Callable on coupon dates from 10/9/99 at par. g1) 7½% to 10/9/99, then 7¼%. h) 3-mth Libor +6¼bp. h1) Callable in Sep 98 at par. h2) Callable in Sep 98 & Dec 98 at par. i) Over interpolated yield. j) 3-mth Libor -6¼bp. k) 11¾% to 9/9/98, then 8%. l) Long 1st coupon. m) Credit Card Master Trust. Legal maturity: 17/3/05. Av life: 4.85 yrs. Monthly coupons. n) Auto Trust. Monthly coupons, semi-annual yields. Average lives: n1) 0.92 yrs; n2) 1.61 yrs; n3) 2.33 yrs; n4) 3.14 yrs. n5) Class B: $45m, 3.53 yrs, 6.53%, 99.98345R, +42bp(5⅝-Feb01). o) Linked to BAT Industries credit risk. p) Callable on coupon dates from 14/8/98 at par. q) Secured by tax revenues. Quarterly coupons. Amortises $7.143m quarterly: average life: 3.6 yrs. r) Linked to Brazilian sovereign risk. t) Callable from 15/8/01 at 104⅞% falling 2⅜%pa to par. u) Callable from 15/8/01 at 104⅛% falling 2⅛%pa to par. v) 3-mth Libor +30bp. w) Short 1st coupon. Note: Yields are calculated on ISMA basis.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 17.08.97 / Final Prices for Trading on 20.07.97

½ hour period ending	Pool purchase price £/MWh (provisional)	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	11.83	12.27	12.56	1.40
0100	11.83	11.11	11.40	1.40
0130	11.83	9.90	10.19	1.40
0200	11.83	9.20	9.49	1.40
0230	11.83	9.20	9.49	1.40
0300	11.83	9.20	9.49	1.40
0330	11.83	9.20	9.49	1.40
0400	11.63	9.20	9.49	1.40
0430	11.63	9.20	9.49	1.40
0500	11.83	8.02	8.31	1.40
0530	11.87	9.20	9.20	0.00
0600	11.87	9.20	9.20	0.00
0630	11.85	9.20	9.20	0.00
0700	11.87	9.20	9.20	0.00
0730	11.87	9.20	9.20	0.00
0800	15.24	9.90	9.90	0.00
0830	12.17	9.90	10.19	1.40
0900	15.05	9.90	10.19	1.40
0930	15.35	12.49	12.78	1.40
1000	15.35	12.45	12.74	1.40
1030	15.35	13.73	14.02	1.40
1100	15.35	15.63	15.91	1.40
1130	15.69	18.38	18.67	1.40
1200	17.21	18.28	18.57	1.40
1230	19.27	24.85	25.14	1.40
1300	20.08	24.85	25.14	1.40
1330	17.21	16.76	17.04	1.40
1400	17.21	15.22	15.51	1.40
1430	15.69	15.22	15.51	1.40
1500	15.22	10.10	10.10	0.00
1530	15.22	10.10	10.10	0.00
1600	15.22	10.11	10.11	0.00
1630	15.22	15.22	15.51	1.40
1700	15.68	15.22	15.51	1.40
1730	25.39	15.22	15.51	1.40
1800	25.33	15.22	15.51	1.40
1830	15.69	15.22	15.51	1.40
1900	15.22	15.22	15.51	1.40
1930	14.62	15.22	15.51	1.40
2000	10.45	15.22	15.51	1.40
2030	10.38	10.12	10.12	0.00
2100	20.05	10.11	10.11	0.00
2130	24.35	15.22	15.51	1.40
2200	24.35	19.71	20.00	1.40
2230	17.11	23.00	23.29	1.40
2300	20.05	23.00	23.29	1.40
2330	17.11	13.73	14.02	1.40
2400	16.87	12.45	12.74	1.40

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 18.08.97 / Final Prices for Trading on 21.07.97

½ hour period ending	Pool purchase price £/MWh (provisional)	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	14.28	9.90	10.07	1.27
0100	14.28	9.80	10.07	1.27
0130	14.28	9.90	10.07	1.27
0200	14.28	9.80	10.07	1.27
0230	14.28	9.80	10.07	1.27
0300	14.28	9.90	10.07	1.27
0330	14.28	9.30	10.07	1.27
0400	14.28	9.90	10.07	1.27
0430	14.28	9.90	10.07	1.27
0500	14.28	10.11	10.11	0.00
0530	10.29	7.00	7.00	0.00
0600	10.28	7.00	7.00	0.00
0630	10.35	7.00	7.00	0.00
0700	11.87	10.00	10.00	0.00
0730	15.67	15.87	15.13	1.27
0800	16.66	12.50	12.67	1.27
0830	16.01	16.30	16.47	1.27
0900	17.03	16.30	16.48	1.27
0930	17.77	18.37	18.56	1.27
1000	18.32	17.99	18.17	1.27
1030	18.28	18.45	18.63	1.27
1100	19.32	27.28	27.40	1.27
1130	25.65	27.29	27.48	1.27
1200	46.93	30.85	31.05	1.27
1230	46.92	30.84	31.03	1.27
1300	46.62	27.27	27.40	1.27
1330	18.33	18.40	18.58	1.27
1400	17.07	18.39	18.57	1.27
1430	17.06	18.38	18.55	1.27
1500	17.04	18.38	18.55	1.27
1530	17.04	18.38	18.55	1.27
1600	17.05	18.38	18.55	1.27
1630	24.58	18.38	18.55	1.27
1700	25.47	18.38	18.56	1.27
1730	25.45	17.97	18.14	1.27
1800	17.01	17.42	17.59	1.27
1830	16.99	18.39	18.55	1.27
1900	16.99	17.42	17.59	1.27
1930	16.99	17.42	17.59	1.27
2000	10.48	15.62	15.79	1.27
2030	10.47	12.80	12.80	0.00
2100	18.98	13.00	13.00	0.00
2130	22.34	15.62	15.79	1.27
2200	20.88	23.00	23.17	1.27
2230	22.34	23.00	23.17	1.27
2300	17.94	23.00	25.17	1.27
2330	16.32	15.62	15.79	1.27
2400	15.87	12.83	13.00	1.27

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Aug 15		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.5992	-0.0113	890 - 093	20.7442	20.5832	20.5448	3.2	20.4321	3.2	19.9266	3.3	101.9
Belgium	(BFr)	60.4413	-0.0169	959 - 866	60.9020	60.3420	60.2613	3.8	59.8913	3.6	58.1413	3.8	101.3
Denmark	(DKr)	11.1600	-0.0077	459 - 540	11.2294	11.1295	11.1185	3.4	11.0545	3.4	10.763	3.5	103.6
Finland	(FM)	8.7785	+0.0078	716 - 849	8.8510	8.7440	8.753	3.5	8.7005	3.6	8.4578	3.3	80.8
France	(FFr)	9.8645	-0.0066	810 - 885	9.9386	9.8465	9.8316	4.0	9.7748	3.8	9.4993	3.7	103.8
Germany	(DM)	2.9275	-0.0017	261 - 288	2.9487	2.9219	2.9182	3.8	2.8992	3.9	2.8123	3.8	102.0
Greece	(Dr)	459.877	+0.073	360 - 995	463.025	458.480	461.46	-4.7	464.084	-3.8	472.452	-2.8	65.1
Ireland	(I£)	1.1013	+0.0051	003 - 023	1.1034	1.0953	1.1008	0.5	1.0994	0.7	1.0955	1.2	98.8
Italy	(L)	2858.20	-4.87	708 - 071	2879.55	2854.74	2858.97	0.0	2858.93	0.0	2858.34	0.1	75.6
Luxembourg	(LFr)	60.4413	-0.8199	959 - 866	60.9020	60.3420	60.2613	3.6	59.8913	3.6	58.1413	3.8	101.3
Netherlands	(Fl)	3.2969	-0.0027	954 - 984	3.3208	3.2915	3.2867	3.7	3.2658	3.8	3.1698	3.9	100.8
Norway	(NKr)	12.1940	+0.0488	881 - 989	12.2667	12.0833	12.1615	3.2	12.1005	3.1	11.8315	3.0	95.9
Portugal	(Es)	298.845	-0.074	700 - 990	298.907	296.403	296.669	0.6	296.159	0.9	292.071	1.6	92.0
Spain	(Pta)	247.889	+0.318	749 - 050	249.600	247.360	247.584	1.6	246.834	1.7	242.464	2.2	76.4
Sweden	(SKr)	12.8016	+0.0276	931 - 107	12.8544	12.7557	12.7744	2.6	12.7189	2.7	12.4584	2.7	84.8
Switzerland	(SFr)	2.4165	+0.0007	154 - 175	2.4306	2.4108	2.4056	5.4	2.389	5.5	2.2828	5.5	105.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	101.6
Ecu	-	1.4882	-0.0005	864 - 900	1.4969	1.4866	1.4869	2.7	1.4788	2.8	1.4447	3.0	-
SDR†	-	1.197910	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6092	+0.0228	087 - 098	1.6122	1.5865	-	-	-	-	-	-	-
Brazil	(R$)	1.7510	+0.0279	504 - 515	1.7525	1.7258	-	-	-	-	-	-	-
Canada	(C$)	2.2373	+0.0301	364 - 381	2.2394	2.2107	2.2304	3.7	2.2168	3.7	2.1859	3.2	84.8
Mexico	(New Peso)	12.5037	+0.1738	929 - 144	12.5287	12.3348	-	-	-	-	-	-	-
USA	($)	1.6101	+0.0234	097 - 104	1.6125	1.5888	1.6082	1.4	1.6044	1.4	1.5904	1.2	108.3
Pacific/Middle East/Africa													
Australia	(A$)	2.1636	+0.0285	624 - 648	2.1727	2.1388	2.16	2.0	2.1516	2.2	2.1147	2.3	94.2
Hong Kong	(HK$)	12.4739	+0.181	728 - 790	12.4949	12.3132	12.4749	0.1	12.4684	0.2	12.4184	0.5	-
India	(Rs)	57.4989	+0.8179	541 - 396	57.5396	56.7940	57.6821	-4.1	58.0627	-4.1	59.7624	-4.0	-
Israel	(Shk)	5.6806	+0.0634	414 - 802	-	-	-	-	-	-	-	-	-
Japan	(Y)	188.473	+1.417	351 - 594	190.060	186.590	187.453	6.5	185.428	6.5	178.443	6.4	132.4
Malaysia	(M$)	4.4800	+0.069	750 - 850	4.4862	4.4059	4.4845	-1.1	4.4923	-1.1	4.5109	-0.7	-
New Zealand	(NZ$)	2.5069	+0.036	054 - 084	2.5153	2.4763	2.5101	-1.5	2.5139	-1.1	2.6145	-0.3	108.2
Philippines	(Peso)	47.9795	+1.18	530 - 060	48.6173	47.7300	48.1394	-4.0	48.3888	-3.4	49.4468	-3.1	-
Saudi Arabia	(SR)	6.0387	+0.0877	373 - 401	6.0478	5.9593	6.0352	0.7	6.0268	0.8	5.9903	0.8	-
Singapore	(S$)	2.4417	+0.0323	403 - 430	2.4446	2.4058	2.4371	2.3	2.427	2.4	2.3788	2.8	-
South Africa	(R)	7.5608	+0.1194	471 - 544	7.5594	7.4440	7.6115	-8.7	7.7294	-9.5	8.1663	-8.2	-
South Korea	(Won)	1441.00	+20.9	746 - 453	1444.53	1425.15	-	-	-	-	-	-	-
Taiwan	(T$)	46.2407	+0.6827	301 - 312	46.3312	45.5415	46.2241	0.4	46.1843	0.5	45.9868	0.5	-
Thailand	(Bt)	51.1194	+1.050	275 - 107	51.2850	49.8880	51.4557	-7.9	51.9173	-6.2	52.9475	-3.8	-

† Rates for Aug 14. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Aug 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.7941	-0.1955	906 - 976	12.8960	12.7780	12.7701	2.3	12.7211	2.3	12.4971	2.3	101.5
Belgium	(BFr)	37.5400	-0.565	200 - 600	38.1340	37.5000	37.465	2.4	37.3135	2.4	36.62	2.5	101.4
Denmark	(DKr)	6.9252	-0.1088	242 - 262	7.0342	6.9220	6.9135	2.0	6.8882	2.1	6.7828	2.1	102.8
Finland	(FM)	5.4522	-0.0756	492 - 651	5.5323	5.4482	5.4407	2.5	5.4171	2.6	5.3232	2.4	80.1
France	(FFr)	6.1270	-0.0943	260 - 280	6.2182	6.1160	6.1155	2.3	6.0916	2.3	5.9828	2.4	103.2
Germany	(DM)	1.8185	-0.0278	178 - 187	1.8465	1.8155	1.8145	2.5	1.8067	2.6	1.7717	2.6	101.8
Greece	(Dr)	285.505	-4.155	370 - 640	290.030	284.950	286.8	-5.4	286.855	-4.7	286.005	-3.7	94.7
Ireland	(I£)	1.4620	+0.0145	610 - 630	1.4630	1.4478	1.4612	0.6	1.4603	0.5	1.4607	0.1	-
Italy	(L)	1775.85	-29.2	490 - 640	1803.22	1774.90	1777.42	-1.2	1780.43	-1.1	1783.85	-0.5	75.3
Luxembourg	(LFr)	37.5400	-0.565	200 - 600	38.1340	37.5000	37.485	2.4	37.3135	2.4	36.62	2.5	101.4
Netherlands	(Fl)	2.0477	-0.0318	472 - 482	2.0794	2.0457	2.0434	2.5	2.0349	2.5	1.9972	2.5	100.6
Norway	(NKr)	7.5737	-0.0808	723 - 751	7.6878	7.5427	7.5582	2.3	7.5308	2.3	7.4181	2.0	95.2
Portugal	(Es)	184.370	-2.78	320 - 420	187.200	184.160	184.334	0.2	184.28	0.2	183.11	0.7	92.5
Spain	(Pta)	153.970	-2.065	910 - 030	156.000	153.910	153.925	0.4	153.75	0.6	152.575	0.8	75.9
Sweden	(SKr)	7.9513	-0.0996	475 - 550	8.0547	7.9345	7.9422	1.4	7.9229	1.4	7.8489	1.3	84.4
Switzerland	(SFr)	1.5009	-0.0216	005 - 012	1.5220	1.4969	1.4955	4.3	1.4849	4.3	1.4394	4.1	104.9
UK	(£)	1.6101	+0.0234	097 - 104	1.6125	1.5888	1.6082	1.4	1.6044	1.4	1.5904	1.2	101.4
Ecu	-	1.0912	+0.016	908 - 915	1.0920	1.0851	1.0826	-1.6	1.0858	-1.7	1.1014	-1.9	-
SDR†	-	0.73718	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9995	-0.0003	994 - 995	0.9995	0.9994	-	-	-	-	-	-	-
Brazil	(R$)	1.0875	+0.0015	874 - 876	1.0876	1.0861	-	-	-	-	-	-	-
Canada	(C$)	1.3896	-0.0015	893 - 898	1.3921	1.3865	1.3884	2.7	1.3807	2.5	1.3601	2.1	84.5
Mexico	(New Peso)	7.7660	-0.0035	610 - 710	7.7710	7.7590	7.8745	-16.8	8.0855	-16.5	8.996	-15.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	167.0
Pacific/Middle East/Africa													
Australia	(A$)	1.3438	-0.0018	434 - 443	1.3462	1.3434	1.3432	0.5	1.3414	0.7	1.333	0.8	95.8
Hong Kong	(HK$)	7.7488	+0.0001	485 - 490	7.7530	7.7485	7.7493	-0.1	7.7502	-0.1	7.7525	0.0	-
India	(Rs)	35.7050	-0.01	800 - 300	35.7300	35.6800	35.8425	-4.6	36.1275	-4.7	37.34	-4.8	-
Israel	(Shk)	3.5097	-0.018	046 - 148	3.5250	3.5046	-	-	-	-	-	-	-
Japan	(Y)	117.060	-0.83	010 - 110	116.700	116.850	116.545	5.3	115.545	5.2	111.245	5.0	133.7
Malaysia	(M$)	2.7825	+0.0025	800 - 850	2.8210	2.7704	2.787	-1.8	2.796	-1.9	2.826	-1.6	-
New Zealand	(NZ$)	1.5570	-0.0003	564 - 576	1.5586	1.5564	1.5578	-0.6	1.5602	-0.8	1.5703	-0.9	-
Philippines	(Peso)	29.8000	+0.305	800 - 100	30.6000	29.6000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7507	+0.0001	506 - 507	3.7507	3.7506	3.7514	-0.2	3.7524	-0.2	3.7571	-0.2	-
Singapore	(S$)	1.5185	-0.002	160 - 170	1.5240	1.5130	1.5148	1.4	1.511	1.5	1.4915	1.6	-
South Africa	(R)	4.6898	+0.0063	885 - 916	4.6985	4.6820	4.7303	-10.4	4.8098	-10.2	5.1123	-9.0	-
South Korea	(Won)	895.000	-	000 - 000	897.000	893.000	-	-	-	-	-	-	-
Taiwan	(T$)	28.7200	-0.005	700 - 700	28.7700	28.6700	28.731	-0.5	28.74	-0.3	28.8325	-0.4	-
Thailand	(Bt)	31.7500	+0.2	000 - 000	31.8500	31.3600	32.195	-16.8	32.9	-14.5	34.13	-7.5	-

† SDR rate per $ for Aug 14. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Aug 14: Base average 1990=100. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

August 15	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅛	3½	3⅜	3⅝	3$\frac{23}{32}$	6.00	2.50	-
week ago	3⅞	3½	3⅝	3$\frac{11}{16}$	3$\frac{25}{32}$	6.00	2.50	-
France	3$\frac{1}{16}$	3¼	3⅜	3½	3$\frac{21}{32}$	3.10	-	4.75
week ago	3$\frac{3}{16}$	3¼	3⅜	3$\frac{11}{32}$	3$\frac{23}{32}$	3.10	-	4.75
Germany	3	3$\frac{3}{16}$	3$\frac{7}{16}$	3⅝	3⅜	4.50	2.50	3.00
week ago	3⅛	3$\frac{3}{16}$	3$\frac{7}{16}$	3$\frac{11}{32}$	3½	4.50	2.50	3.00
Ireland	6	6$\frac{3}{16}$	6⅜	6$\frac{7}{16}$	6⅝	-	-	6.75
week ago	6⅛	6$\frac{3}{16}$	6¼	6$\frac{7}{16}$	6$\frac{9}{16}$	-	-	6.75
Italy	6⅞	6$\frac{27}{32}$	6$\frac{25}{32}$	6¾	6$\frac{23}{32}$	7.75	6.25	6.27
week ago	6$\frac{31}{32}$	6$\frac{29}{32}$	6⅞	6¾	6$\frac{11}{16}$	7.75	6.25	6.27
Netherlands	3$\frac{1}{16}$	3$\frac{3}{16}$	3⅜	3$\frac{15}{32}$	3$\frac{23}{32}$	-	2.50	3.00
week ago	3$\frac{7}{16}$	3$\frac{3}{16}$	3$\frac{13}{32}$	3$\frac{17}{32}$	3$\frac{11}{16}$	-	2.50	3.00
Switzerland	⅝	1$\frac{5}{16}$	1$\frac{7}{16}$	1$\frac{9}{16}$	1$\frac{13}{16}$	-	1.00	-
week ago	1	1$\frac{5}{16}$	1½	1⅝	1$\frac{13}{16}$	-	1.00	-
US	5⅝	5$\frac{9}{16}$	5$\frac{21}{32}$	5¾	5$\frac{31}{32}$	-	5.00	-
week ago	5$\frac{11}{16}$	5$\frac{9}{16}$	5$\frac{11}{16}$	5$\frac{27}{32}$	5$\frac{31}{32}$	-	5.00	-
Japan	$\frac{15}{32}$	$\frac{9}{16}$	$\frac{9}{16}$	$\frac{21}{32}$	$\frac{13}{16}$	-	0.50	-
week ago	$\frac{15}{32}$	$\frac{9}{16}$	$\frac{19}{32}$	$\frac{21}{32}$	$\frac{13}{16}$	-	0.50	-
■ $ LIBOR FT London Interbank Fixing	-	5⅝	5¾	5$\frac{27}{32}$	6$\frac{1}{16}$	-	-	-
week ago	-	5⅝	5$\frac{23}{32}$	5$\frac{27}{32}$	6$\frac{1}{16}$	-	-	-
US Dollar CDs	-	5.43	5.46	5.54	5.72	-	-	-
week ago	-	5.43	5.45	5.55	5.75	-	-	-
ECU Linked Ds	-	4$\frac{1}{16}$	4$\frac{3}{16}$	4$\frac{11}{32}$	4$\frac{13}{32}$	-	-	-
week ago	-	4$\frac{3}{16}$	4$\frac{3}{16}$	4$\frac{11}{32}$	4$\frac{7}{16}$	-	-	-
SDR Linked Ds	-	3½	3⅝	3$\frac{23}{32}$	3$\frac{27}{32}$	-	-	-
week ago	-	3⅛	3⅝	3$\frac{23}{32}$	3$\frac{27}{32}$	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Aug 15	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3½ - 3$\frac{3}{16}$	3$\frac{7}{16}$ - 3$\frac{11}{32}$	3$\frac{7}{16}$ - 3$\frac{5}{16}$	3⅝ - 3½	3$\frac{21}{32}$ - 3$\frac{9}{16}$	3$\frac{29}{32}$ - 3$\frac{25}{32}$
Danish Krone	3$\frac{13}{32}$ - 3$\frac{7}{16}$	3$\frac{9}{16}$ - 3½	3$\frac{13}{32}$ - 3$\frac{17}{32}$	3$\frac{21}{32}$ - 3$\frac{19}{32}$	3$\frac{23}{32}$ - 3$\frac{21}{32}$	4⅛ - 4$\frac{1}{16}$
German Mark	3⅛ - 2$\frac{15}{16}$	3$\frac{3}{16}$ - 3$\frac{1}{16}$	3$\frac{3}{16}$ - 3$\frac{3}{32}$	3$\frac{5}{16}$ - 3$\frac{3}{16}$	3$\frac{7}{16}$ - 3$\frac{5}{16}$	3⅝ - 3½
Dutch Guilder	3½ - 3⅜	3$\frac{3}{32}$ - 3$\frac{5}{32}$	3$\frac{13}{32}$ - 3$\frac{3}{16}$	3$\frac{13}{32}$ - 3⅜	3$\frac{13}{32}$ - 3$\frac{11}{32}$	3$\frac{23}{32}$ - 3$\frac{21}{32}$
French Franc	3¼ - 3⅛	3$\frac{3}{16}$ - 3$\frac{7}{32}$	3$\frac{5}{16}$ - 3$\frac{3}{16}$	3$\frac{7}{16}$ - 3$\frac{5}{16}$	3$\frac{9}{16}$ - 3$\frac{7}{16}$	3¾ - 3$\frac{19}{32}$
Portuguese Esc.	5$\frac{11}{16}$ - 5$\frac{19}{32}$	5$\frac{11}{16}$ - 5$\frac{21}{32}$	5$\frac{11}{16}$ - 5$\frac{17}{32}$	5⅝ - 5½	5$\frac{17}{32}$ - 5$\frac{3}{16}$	5⅜ - 5$\frac{11}{32}$
Spanish Peseta	5$\frac{21}{32}$ - 5½	5$\frac{9}{16}$ - 5$\frac{13}{32}$	5$\frac{15}{32}$ - 5$\frac{3}{16}$	5$\frac{13}{32}$ - 5¼	5$\frac{5}{16}$ - 5$\frac{3}{16}$	5$\frac{3}{32}$ - 5$\frac{1}{32}$
Sterling	7⅛ - 7	7⅛ - 7	7$\frac{3}{16}$ - 6$\frac{15}{16}$	7¼ - 7	7$\frac{3}{32}$ - 7$\frac{1}{32}$	7$\frac{15}{32}$ - 7$\frac{13}{32}$
Swiss Franc	1 - ½	1$\frac{3}{16}$ - $\frac{13}{16}$	1⅜ - 1¼	1½ - 1⅜	1⅝ - 1½	1$\frac{13}{16}$ - 1$\frac{11}{16}$
Canadian Dollar	3$\frac{7}{16}$ - 3¼	3⅜ - 3$\frac{3}{16}$	3½ - 3¼	3⅝ - 3⅜	3⅞ - 3⅝	4⅜ - 4⅛
US Dollar	5$\frac{11}{16}$ - 5$\frac{9}{16}$	5⅝ - 5½	5$\frac{21}{32}$ - 5$\frac{17}{32}$	5¾ - 5½	5⅞ - 5⅝	6$\frac{3}{16}$ - 5$\frac{15}{16}$
Italian Lira	7$\frac{13}{32}$ - 6$\frac{31}{32}$	6$\frac{27}{32}$ - 6$\frac{23}{32}$	6$\frac{27}{32}$ - 6$\frac{23}{32}$	6$\frac{27}{32}$ - 6$\frac{23}{32}$	6$\frac{13}{16}$ - 6$\frac{11}{16}$	6$\frac{13}{16}$ - 6$\frac{11}{16}$
Japanese Yen	½ - $\frac{13}{32}$	$\frac{17}{32}$ - ½	$\frac{9}{16}$ - $\frac{17}{32}$	$\frac{19}{32}$ - ½	$\frac{23}{32}$ - $\frac{9}{16}$	⅝ - ½
Asian $Sing	3½ - 3¼	4½ - 4	4 - 3⅞	4 - 3⅞	4 - 3⅞	4⅛ - 4

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.24	94.28	+0.01	94.28	94.25	42,177	499,365
Dec	94.06	94.14	-0.03	94.14	94.06	89,065	473,743
Mar	93.97	94.08	-0.01	94.09	93.98	102,738	336,998

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.90	94.92	+0.02	94.93	94.90	1,246	7,428
Dec	94.80	94.84	+0.04	94.84	94.79	41	2,126
Mar	94.72	94.78	+0.06	94.79	94.72	62	709

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Aug 15		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.45	16.32	4.844	1.822	4730	5.455	20.16	491.1	410.1	21.16	3.998	1.654	3.702	2.664	311.8	2.464
Denmark	(DKr)	54.21	10	8.847	2.626	0.986	2564	2.957	10.94	266.2	222.3	11.48	2.167	0.897	2.007	1.444	169.0	1.336
France	(FFr)	61.27	11.30	10	2.968	1.116	2898	3.342	12.36	300.9	251.3	12.98	2.450	1.014	2.268	1.632	191.1	1.510
Germany	(DM)	20.65	3.809	3.370	1.	0.376	976.5	1.126	4.165	101.4	84.68	4.373	0.825	0.342	0.764	0.550	64.38	0.509
Ireland	(I£)	54.88	10.12	8.958	2.658	1	2596	2.994	11.07	269.5	225.1	11.62	2.194	0.908	2.032	1.462	171.1	1.352
Italy	(L)	2.114	0.390	0.345	0.102	0.039	100	0.115	0.427	10.38	8.671	0.448	0.085	0.035	0.078	0.056	6.593	0.052
Netherlands	(Fl)	18.33	3.382	2.992	0.888	0.334	867.1	1	3.699	90.04	75.19	3.883	0.733	0.303	0.679	0.488	57.17	0.452
Norway	(NKr)	49.57	9.144	8.090	2.401	0.903	2344	2.704	10	243.4	203.3	10.50	1.982	0.820	1.835	1.320	154.6	1.221
Portugal	(Es)	20.36	3.758	3.323	0.986	0.371	963.1	1.111	4.108	100	83.51	4.313	0.814	0.337	0.754	0.542	63.49	0.502
Spain	(Pta)	24.38	4.498	3.979	1.181	0.444	1153	1.330	4.916	119.7	100	5.194	0.975	0.403	0.903	0.649	76.03	0.601
Sweden	(SKr)	47.21	8.710	7.706	2.287	0.860	2233	2.575	9.525	231.9	193.6	10	1.888	0.781	1.748	1.258	147.2	1.163
Switzerland	(SFr)	25.01	4.614	4.082	1.211	0.456	1183	1.364	5.046	122.8	102.6	5.298	1	0.414	0.926	0.666	77.99	0.616
UK	(£)	60.44	11.15	9.865	2.928	1.101	2859	3.297	12.16	296.9	247.6	12.80	2.417	1	2.237	1.610	188.5	1.489
Canada	(C$)	27.01	4.984	4.409	1.309	0.492	1278	1.474	5.450	132.7	110.8	5.722	1.080	0.447	1	0.720	84.24	0.666
USA	($)	37.54	6.925	6.127	1.818	0.684	1776	2.048	7.574	184.4	154.0	7.951	1.501	0.621	1.390	1	117.1	0.925
Japan	(Y)	32.07	5.916	5.234	1.553	0.584	1517	1.749	6.470	157.5	131.5	6.793	1.282	0.531	1.187	0.854	100	0.790
Ecu	-	40.59	7.488	6.625	1.966	0.740	1920	2.214	8.189	199.3	166.5	8.597	1.623	0.672	1.502	1.081	126.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	0.5444	0.5488	+0.0045	0.5519	0.5426	35,659	110,542
Dec	0.5480	0.5520	+0.0045	0.5553	0.5480	681	4,088
Mar	-	0.5551	+0.0045	0.5570	-	318	1,103

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	0.6611	0.6654	+0.0042	0.6715	0.6592	12,830	51,477
Dec	0.6665	0.6722	+0.0042	0.6787	0.6665	95	2,396
Mar	-	0.6791	+0.0042	0.6825	-	7	1,065

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	0.8515	0.8519	+0.0009	0.8600	0.8458	27,564	72,813
Dec	0.8625	0.8630	+0.0008	0.8715	0.8575	342	2,372
Mar	0.8755	0.8745	+0.0008	0.8765	0.8755	165	530

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	1.5878	1.6054	+0.0184	1.6124	1.5872	7,303	51,324
Dec	1.5888	1.5998	+0.0182	1.6050	1.5888	47	1,069
Mar	-	1.5936	+0.0178	1.6000	-	40	209

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Aug	Sep	Oct	PUTS Aug	Sep	Oct
1.570	-	-	-	0.13	0.80	1.17
1.580	-	3.17	-	0.13	0.85	1.50
1.590	1.53	2.51	3.09	0.14	1.13	1.89

Previous day's vol., Calls 1,488 Puts 135. Prev. day's open int., Calls 36,340 Puts 38,779

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Aug	Sep	Oct	PUTS Aug	Sep	Oct
0.535	-	1.64	1.91	0.01	0.19	0.37
0.540	0.87	1.27	1.57	0.01	0.30	0.49
0.545	0.38	0.94	1.26	0.01	0.45	0.68

Previous day's vol., Calls 2,775 Puts 3,919. Prev. day's open int., Calls 20,248 Puts 18,626

UK INTEREST RATES

LONDON MONEY RATES

Aug 15	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - 6⅞	7⅛ - 6$\frac{15}{16}$	7⅛ - 6$\frac{31}{32}$	7¼ - 7$\frac{1}{16}$	7$\frac{7}{16}$ - 7$\frac{5}{16}$	7½ - 7⅜
Sterling CDs	-	-	7$\frac{1}{32}$ - 6$\frac{31}{32}$	7$\frac{3}{32}$ - 7$\frac{1}{16}$	7$\frac{3}{16}$ - 7⅛	7$\frac{11}{32}$ - 7$\frac{9}{32}$
Treasury Bills	-	-	6$\frac{15}{16}$ - 6$\frac{13}{16}$	7 - 6⅞	-	-
Bank Bills	-	-	7 - 6$\frac{15}{16}$	7$\frac{1}{16}$ - 6¾	7$\frac{3}{16}$ - 7$\frac{1}{16}$	-
Local authority deps.	6⅞ - 6⅝	6⅞ - 6⅝	7$\frac{1}{32}$ - 7$\frac{1}{32}$	7$\frac{3}{32}$ - 7$\frac{1}{32}$	7¼ - 7$\frac{3}{16}$	7$\frac{7}{16}$ - 7⅜
Discount Market deps	6⅞ - 6¾	6⅞ - 6¾	-	-	-	-

UK clearing bank base lending rate 7 per cent from Aug 7, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Aug 15, 6.7810pc. ECGD fixed rate Stg. Export Finance. Make up day Jul 31, 1997. Agreed rate for period Aug 26, 1997 to Sep 23, 1997, Scheme III 8.27pc. Reference rate for period Jul 1, 1997 to Jul 31, 1997, Schemes IV & V 7.035pc. Finance House Base Rate 7pc from Aug 1, 1997

BANK OF ENGLAND TREASURY BILL TENDER

	Aug 15	Aug 8
Bills on offer	£200m	£200m
Total of applications	£1126m	£1031m
Total allocated	£200m	£200m
Min. accepted bid	£98.305	£98.300
Allotment at min. level	63%	86%

	Aug 15	Aug 8
Top accepted rate	6.7986%	6.8186%
Ave. rate of discount	6.7810%	6.7800%
Average yield	6.8698%	6.8965%
Offer at next tender	£200m	£200m
Min. accept. bid 92 days	-	-

■ Pound in New York

Aug 15	-- Close --	-- Prev. close --
£ spot	1.6085	1.5905
1 mth	1.6065	1.5885
3 mth	1.6017	1.5852
1 yr	1.5870	1.5695

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

BASE LENDING RATES

	%		%		%
Adam & Company	7.00	Duncan Lawrie	7.00	Scottish Widows Bank	7.00
Allied Irish Bank (GB)	7.00	Exeter Bank Limited	8.00	●Singer & Friedlander	7.00
●Henry Ansbacher	7.00	Financial & Gen Bank	7.50	●Smith & Williamson Secs	7.00
Bank of Baroda	7.00	●Robert Fleming & Co	7.00	Sun Banking Corp Ltd	7.00
Banco Bilbao Vizcaya	7.00	●Guinness Mahon	6.75	TSB	7.00
Bank of Cyprus	7.00	Habib Bank AG Zurich	7.00	United Bank of Kuwait	7.00
Bank of Ireland	7.00	●Hambros Bank	67.00	Unity Trust Bank Plc	7.00
Bank of India	6.75	Heritable & Gen Inv Bk	7.00	Western Trust	6.50
Bank of Scotland	7.00	C. Hoare & Co	7.00	Whiteaway Laidlaw	7.00
Barclays Bank	7.00	Hongkong & Shanghai	7.00	Yorkshire Bank	7.00
Brit Bk of Mid East	7.00	Investec Bank (UK) Ltd	7.00		
●Brown Shipley & Co Ltd	7.00	Julian Hodge Bank	7.00		
Citibank NA	7.00	●Leopold Joseph & Sons	7.00		
Clydesdale Bank	7.00	Lloyds Bank	7.00		
The Co-operative Bank	7.00	Midland Bank	7.00		
Coutts & Co	7.00	NatWestminster	7.00		
Cyprus Popular Bank	7.00	●Rea Brothers	7.00		
		Royal Bk of Scotland	7.00		

● Members of London Investment Banking Association
* In administration

OTHER STATISTICS

STOCK INDICES

	Aug 15	Aug 14	Aug 13	Aug 12	Aug 11	1997 High	1997 Low	Since comp. High	Since comp. Low
FTSE 100	4865.8	4891.3	5003.6	5075.8	5031.9	5086.8	4056.6	5086.8	986.9
FTSE 250	4698.2	4689.9	4677.0	4700.4	4671.8	4728.4	4398.2	4728.4	1379.4
FTSE 250 ex IT	4704.1	4690.1	4676.9	4698.2	4669.6	4773.8	4380.7	4773.8	1378.3
FTSE 350	2365.9	2404.1	2407.6	2438.0	2418.1	2438.6	2017.9	2438.6	664.5
FTSE SmallCap	2243.41	2242.85	2234.30	2228.83	2218.57	2374.20	2178.29	2374.20	1363.79
FTSE SmallCap ex IT	2204.73	2201.28	2191.76	2183.55	2172.92	2362.36	2139.02	2362.36	1363.79
FTSE All-Share	2302.40	2346.32	2348.96	2378.39	2367.52	2378.39	1999.78	2378.39	61.92
FTSE Fledgling	1252.13	1253.05	1249.54	1251.10	1247.49	1346.52	1223.48	1346.52	31.14
FTSE Eurotrack 100	2638.97	2673.74	2715.53	2757.28	2763.17	2794.88	1993.80	2794.88	900.45
FTSE Eurotrack 200	2692.10	2677.08	2695.99	2744.34	2738.17	2785.37	1947.11	2785.37	938.62
FT 30	3143.3	3196.2	3185.2	3226.5	3205.9	3228.5	2762.5	3228.5	49.4
FT Govt Securities	96.73	96.85	96.57	96.73	96.49	97.88	93.31	127.40	49.18
FT Fixed Interest	125.54	125.65	125.75	126.39	125.22	126.88	113.85	133.87	50.53
FTSE Gold Mines	1446.29	1438.16	1458.65	1448.10	1454.12	2074.81	1270.14	2074.81	922.16

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997 High	1997 Low	Stock	Closing price p	+or-
21	Nil	22/8	2½pm	2½pm	Golden Land	2½pm	
605	Nil	21/8	230pm	140pm	Logica	217½pm	-7½

pm premium.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	-	416	410	Antofagasta Uts	410		-	-	-	-
§	F.P.	4,871	236	220½	Billiton	234	-½	RQ10c	1.6	2.7	23.5
*	F.P.	7.99	80	70½	†Blakes Clothing	80	+7½	L1.45	5.1	2.3	6.7
-	F.P.	135.3	108¾	101	Bristol & W Prf	108¼		-	-	-	-
§100	F.P.	29.4	145	100½	Cammell Laird	138½	+1	L3.8	2.1	3.4	13.4
	F.P.	-	116	114	EMI 6	116		Z2.75	-	3.1	-
*	F.P.	9.92	117½	117½	Fairfield Ents	117½		W2.0	7.8	2.1	7.4
§8	F.P.	4.61	3¾	3½	†Fairplace Cnslg	3¾		-	-	-	-
§-	F.P.	7.24	65	55	†GR Holdings	55	-10	-	-	-	43.6
§150	F.P.	236.5	202	162½	Galen Hldgs	195		L0.0	5.7	0.6	31.4
§125	F.P.	5.84	135	99½	†Helicon Publsg	99½	-½	-	-	-	-
§	F.P.	580.0	396½	372½	Ionica	379½	-8	-	-	-	-
§160	F.P.	17.0	175½	172½	†Kingfisher Lsis	175½		LW2.0	6.0	1.4	14.8
-	F.P.	-	79½	76½	†LEPCO	78½		-	-	-	-
§60	F.P.	4.21	98	93	†Landround	94½		3.3	1.7	4.4	16.8
§173	F.P.	44.6	217½	185½	Metroline	207½	-2	R5.6	2.8	3.5	12.4
100	F.P.	32.7	112½	99½	Raeburne Martin	109½		-	-	-	-
§100	F.P.	7.70	120½	105½	†SBS Group	108½		L2.4	2.0	2.8	19.1
-	F.P.	-	38½	34½	Severn Trent 6	34½		-	-	-	-
-	F.P.	-	50½	42½	†Stantor Warrants	50		-	-	-	-
	F.P.	-	22¾	19½	Thorn 6	20½		-	-	-	-
-	F.P.	79.9	88½	60	Vigien Tech	65½	-½	-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

BANK RETURN

BANKING DEPARTMENT	Wednesday August 13, 1997 £	Increase or decrease for week £
Liabilities		
Capital	14,553,000	-
Public deposits	1,234,314,565	-47,313,709
Bankers deposits	2,559,009,166	+47,981,374
Reserve and other accounts	3,084,724,703	-217,839,229
	6,892,601,454	-217,171,564
Assets		
Government securities	1,389,031,305	-14,275,000
Advance and other accounts	4,941,898,669	-237,431,925
Premise, equipment and other secs	552,166,919	+31,082,413
Notes	9,614,001	+3,482,763
Coin	90,561	-29,815
	6,892,601,454	-217,171,564
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	22,100,385,999	-3,482,763
Notes in Banking Department	9,614,001	+3,482,763
	22,110,000,000	-
Assets		
Other Government securities	14,201,235,905	+1,610,401,049
Other Securities	7,908,764,095	-1,610,401,049
	22,110,000,000	-

FTSE GOLD MINES INDEX

	Aug 15	% chg since 31/12/96	Mkt Cap $m	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1446.29	-20.7	38.99	100.00	2.19	-	2081.05	1270.14
■ Regional Indices								
Africa (14)	1441.09	-32.2	8.63	22.14	5.33	23.84	2695.89	1324.06
Australasia (6)	1575.87	-28.9	4.17	10.69	3.36	16.12	2455.16	1336.10
North America (11)	1445.75	-14.4	26.19	67.17	0.97	73.44	1854.46	1244.23

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UK GILTS PRICES

[illegible]

■ "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis. ♦ Indicative price.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

Royal Bk Canada C$	28⅝	-6.2	$1.48	FeMyAuNv	24.1	1190
Toronto-Dom C$	18⅞	-7.1	1.12c	JaApJyOc	18.12	1207
Trans Can Pipe C$ ♥	11⅜	-4.4	$1.18	JaApJyOc	28.8	-
Western Star Trucks C$	18⅞	-3.0	-	-	-	-

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind R		£27⅝		0555c	♠	May Oct	2.9	-
Barlow	‡†	£7⅞	-6.5	0190c	3.3	Jan Jul	9.12	-
Gold Flds Prop R	†	192	-2.4	085c	1.5	Feb Sep	29.8	-
SA Brews		£19½	-4.1	0287c	♠	Jul Feb	2.6	4113
Standard Bank		£29⅞	-2.2	0487c	♠	Sep Mar	3.3	-
Tiger Oats	†	985	-5.9	0135c	2.9	Jan Jul	9.6	-
Tongaat-Hulett		764½	-2.0	0142c	♠	Jan Jul	17.6	-

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♠ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment. Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part in a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: **Additions: Beverley** (Eng), **Gremlin** (Med), **English & O'seas Cnv Prf** (Prop), **Ted Baker** (FtGr), **Declam, Voss Net** (AIM). **Deletions: Quality Care Homes** (Hlth), **Stirling Resources** (OIE), **Chubb Security** (SpSv), **Applied Distribution** (Trns).

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

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American Phoenix Investment Portfolios (a) [illegible]

Foreign & Colonial Portfolios Fd Sicav(a) [illegible]

Morgan Stanley Sicav - Contd. [illegible]

ACM Offshore Funds - Contd. [illegible]

Credis Investment Funds - Contd. [illegible]

Merrill Lynch Asset Management - Contd. [illegible]

Target International Ltd [illegible]

Templeton Emerging Asia [illegible]

Templeton Russian & East European Debt Fd [illegible]

Tower Fund [illegible]

Tweedy, Browne Value Funds [illegible]

Friends Provident International [illegible]

General International Limited [illegible]

Hansard Europe Limited [illegible]

OFFSHORE INSURANCES

[illegible]

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds [illegible]

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OTHER OFFSHORE FUNDS

WORLD STOCK MARKETS

Highs & Lows shown on a 52 week basis

EUROPE

AUSTRIA (Aug 14 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Aug 14 / Frs.)

[illegible]

CZECH REP (Aug 15 / Korona)

[illegible]

DENMARK (Aug 15 / Kr)

[illegible]

FINLAND (Aug 15 / Mka)

[illegible]

FRANCE (Aug 14 / Frs.)

[illegible]

GERMANY (Aug 15 / Dm.)

[illegible]

GREECE (Aug 14 / Drachma)

[illegible]

ITALY (Aug 14 / Lire)

[illegible]

NETHERLANDS (Aug 15 / Fls.)

[illegible]

NORWAY (Aug 15 / Kroner)

[illegible]

POLAND (Aug 14 / Zloty)

[illegible]

PORTUGAL (Aug 14 / Escudo)

[illegible]

SPAIN (Aug 14 / Pts.)

[illegible]

SWEDEN (Aug 15 / Kronor)

[illegible]

SWITZERLAND (Aug 15 / Frs.)

[illegible]

TURKEY (Aug 15 / TK Lira)

[illegible]

PACIFIC

JAPAN (Aug 15 / Yen)

[illegible]

HONG KONG (Aug 15 / H.K.$)

[illegible]

INDONESIA (Aug 15 / Rupiah)

[illegible]

MALAYSIA (Aug 15 / MYR)

[illegible]

NEW ZEALAND (Aug 15 / NZ $)

[illegible]

SINGAPORE (Aug 15 / S$)

[illegible]

AUSTRALIA (Aug 15 / Aust$)

[illegible]

SOUTH KOREA (Aug 14 / Won)

[illegible]

TAIWAN (Aug 15 / TW $)

[illegible]

THAILAND (Aug 15 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Aug 15 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Aug 15 / Can $)
4 pm close

[illegible]

MONTREAL (Aug 15 / Can $)
4 pm close

[illegible]

INDICES

	Aug 15	Aug 14	Aug 13	1997 High		1997 Low	
Argentina							
General(29/12/77)	24442.71	24536.53	24497.57	24917.86	5/8	18237.37	2/1
Australia							
All Ordinaries(1/1/80)	2666.2	2627.4	2623.6	2745.80	2/7	2302.20	1/4
All Mining(1/1/80)	830.0	823.6	820.0	987.10	24/2	820.05	13/8
Austria							
Credit Aktien(30/12/84)	(c)	448.07	452.34	468.82	1/8	374.40	9/1
Traded Index(2/1/91)	(c)	1382.75	1408.14	1480.49	31/7	1130.22	9/1
Belgium							
BEL20(1/1/91)	(c)	2417.87	2398.10	2621.80	28/7	1871.05	2/1
Brazil							
Bovespa(29/12/83)	12335.0	11905.0	11351.0	13617.00	8/7	8955.80	2/1
Canada							
Metals Mnls(1975)	5198.08	5286.30	5343.58	5891.75	10/3	4946.98	11/4
Composite(1975)	6695.10	6766.90	6791.00	6845.10	7/8	5679.30	14/4
Portfolio§§(4/1/83)	3331.72	3360.38	3367.17	3604.53	7/8	2846.02	11/4
Chile							
IGPA Gen(31/12/80)	(c)	5613.57	5582.26	5868.71	4/7	4812.42	2/1
Denmark							
CopenhagenSE(3/1/83)	627.27	631.03	632.23	656.29	17/7	470.14	3/1
Finland							
HEX General(28/12/90)	3510.90	3576.04	3600.85	3665.86	7/8	2482.28	2/1
France							
SBF 250(31/12/90)	(c)	1918.00	1917.44	2003.43	31/7	1503.19	2/1
CAC 40(31/12/87)	(c)	2921.84	2924.04	3035.87	31/7	2258.97	2/1
Germany							
FAZ Aktien(31/12/58)	1400.90	1417.35	1445.59	1481.44	31/7	986.21	2/1
Commerzbank(1/12/53)	4086.30	4138.10	4219.40	4336.70	31/7	2875.90	2/1
DAX‡(30/12/87)	4152.86	4231.43	4278.48	4438.93	31/7	2848.77	2/1
Greece							
Athens SE(31/12/80)	(c)	1645.81	1642.36	1727.70	23/5	954.54	2/1
Hong Kong							
Hang Seng(31/7/64)	16096.88	16407.71	16482.93	16673.27	7/8	12055.17	3/4
India							
BSE Sens.(1979)	(c)	4320.97	4370.13	4548.02	5/8	3225.24	3/1
Indonesia							
Jakarta Comp.(10/8/82)	617.71	643.01	658.50	740.83	8/7	617.71	15/8
Ireland							
ISEQ Overall(4/1/88)	3656.95	3705.99	3690.02	3720.98	6/8	2726.07	2/1
Italy							
Banca Comm. Ital(1972)	(c)	905.40	908.68	959.18	23/7	642.55	2/1
MIB Generale(2/1/97)	(c)	1351.0	1363.0	1442.00	22/7	981.00	2/1
Japan							
Nikkei 225(16/5/49)	19326.03	18222.62	18008.60	20681.07	16/6	17303.65	10/1
Nikkei 300(1/10/82)	294.15	292.99	289.17	303.71	28/7	251.04	27/1
Topix(4/1/68)	1501.59	1494.69	1477.87	1560.28	26/6	1320.82	10/4
2nd Section(4/1/68)	1680.12	1669.28	1659.52	1848.25	30/6	1318.50	15/4
Malaysia							
KLSE Comp.(4/4/86)	910.18	918.54	908.83	1271.57	25/2	897.25	12/8
Mexico							
IPC(Nov 1978)	(u)	5014.61	5016.63	5212.88	6/8	3359.46	2/1
Netherland							
CBS TtlRtnGen(End 83)	1054.9	1089.1	1102.1	1184.80	7/8	730.80	2/1
CBS All Shr(End 83)	609.4	634.9	636.7	694.40	7/8	428.00	2/1
New Zealand							
Cap. 40(1/7/86)	2495.63	2456.50	2450.92	2578.52	30/7	2207.48	1/4
Norway							
Oslo SE(Ind)(2/1/83)	2135.96	2159.75	2171.65	2217.38	7/8	1638.03	2/1
Philippines							
Manila Comp(2/1/85)	2448.93	2493.49	2527.08	3447.60	3/2	2448.93	15/8
Portugal							
BVL 30(4/1/93)	(c)	3581.13	3546.32	3803.98	7/8	2165.57	2/1
Singapore							
SES All-S'pore(2/4/75)	495.53	485.83	479.54	573.09	17/2	479.54	13/8
South Africa							
JSE Gold(28/9/78)	1022.4¶	1041.9	1026.1	1586.10	27/2	908.80	7/7
JSE Ind.(28/9/78)	9120.9¶	9238.1	9243.1	9314.20	7/8	7858.50	2/1
South Korea							
KoreaCompEx(4/1/80)	(c)	755.78	762.73	792.28	17/6	611.05	7/1
Spain							
Madrid SE(30/12/85)	(c)	589.45	590.43	628.15	7/7	434.54	3/1
Sweden							
AffarsvarldenGen(1/2/37)	3191.4	3239.5	3243.7	3315.80	7/8	2378.50	2/1
Switzerland							
SMI Index(1/7/88)	5498.5	5579.5	5682.1	6012.80	8/7	3822.90	7/1
SPI General(1/6/87)	3547.12	3595.90	3640.95	3768.70	8/7	2506.22	6/1
Taiwan							
WeightedPr.**(30/6/66)	9770.80	9632.34	9556.12	10066.35	31/7	6844.76	6/1
Thailand							
Bangkok SET(30/4/75)	623.26	628.69	632.73	858.97	22/1	484.77	19/6
Turkey							
IMKB Nat 100(1986)	2004.00	2016.00	2005.00	2080.00	7/8	985.00	2/1
WORLD							
MS Capital Intl(1/1/70)	949.7*	951.2	952.6	981.90	31/7	794.30	14/4
CROSS-BORDER							
Eurotrack 100(29/10/90)	2638.97	2673.74	2715.53	2794.80	7/8	1869.80	2/1
FTSE E 100(26/6/90)	2004.00	2247.72	2256.29	2355.95	7/8	1582.98	2/1
HSBC JC Drgn(31/12/88)	(u)	418.89	421.38	434.83	6/8	381.83	29/4
ING Bngs Emrg(7/1/92)	135.58	186.14	187.02	198.81	8/7	158.74	3/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (MATIF/MONEP) (200 x Index) (Aug 14)							
Aug	2921.0	2921.0	-3.0	2929.0	2883.0	810	26,430
Sep	2927.0	2929.0	-3.5	2937.0	2920.0	41	23,759
DAX							
Sep	4220.0	4080.0	-118.0	4244.0	4075.0	33,944	95,253
Dec	4250.5	4116.5	-115.5	4270.5	4111.0	262	3,480

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
OMX							
Aug	2615.00	2549.00	-50.00	2615.00	2530.00	7,672	17,976
Sep	2611.75	2559.55	-51.25	2618.50	2553.50	969	4,933
SOFFEX							
Aug	5585.0	5580.2	+14.0	5600.0	5550.0	2,950	12,048
Sep	5605.0	5502.9	-73.0	5605.0	5470.0	10,143	10,769

** Sat Aug 9. Taiwan Weighted Price 9993.54; Korea Comp Ex 760.84. Base values of all indices are 100 except: Australia All Ord and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall; Toronto Comp./Met & Mins. DAX - all 1,000; SMI - 1500; JSE Gold - 255.7; JSE 20 Ind - 264.3; IMKB Nat 100 - 1; NYSE All Common - 50; Stand & Poor's - 10 and Amex Comp - 550. §§ Montreal ♦ Toronto (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Aug 15 - 4077.59 -117.94

US INDICES

Dow Jones	Aug 15	Aug 14	Aug 13	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7694.66	7942.03	7928.32	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.24	104.13	104.02	104.70 (31/7)	101.09 (14/4)	104.70 (31/7/97)	54.99 (1/10/81)
Transport	2864.96	2895.53	2916.53	3009.25 (6/8)	2222.07 (2/1)	3009.25 (6/8/97)	13.23 (8/7/32)
Utilities	228.51	231.41	230.72	240.85 (22/1)	209.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7919.26 (8027.73) Low 7685.13 (7843.54) (Theoretical♦)
Day's high 7837.38 (7987.77) Low 7684.66 (7864.01) (Actual♦)

Standard and Poors	Aug 15	Aug 14	Aug 13	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	900.81	924.77	922.02	960.32 (6/8)	737.01 (2/1)	960.32 (6/8/97)	4.40 (1/6/32)
Industrials¶	1059.76	1088.11	1084.73	1130.78 (6/8)	865.42 (11/4)	1130.78 (6/8/97)	3.52 (30/6/32)
Financial	103.41	106.45†	105.98	111.88 (31/7)	80.75 (2/1)	111.88 (31/7/97)	7.13 (4/9/74)
NYSE Comp.	469.18	479.66	478.42	497.00 (6/8)	389.47 (11/4)	497.00 (6/8/97)	4.64 (25/4/42)
Amex Comp.	635.51	640.39	641.06	654.06 (6/8)	541.20 (28/4)	654.06 (6/8/97)	524.20 (16/7/96)
NASDAQ Cmp	1562.03	1586.89†	1583.40	1630.44 (6/8)	1201.00 (2/4)	1630.44 (6/8/97)	54.87 (3/10/74)

■ RATIOS

	Aug 6	Aug 1	Jul 25	Year ago
Dow Jones Ind. Div. Yield	1.61	1.58	1.60	2.21

	Aug 13	Aug 6	Jul 30	Year ago
S & P Ind. Div. yield	1.53	1.47	1.48	2.04
S & P Ind. P/E ratio	25.27	26.35	26.05	22.04

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
BP	10,683,700	80	-4¼
SL Strat	8,311,300	51½	-4
GEC	8,111,800	62¾	-4
TV Azteca	7,574,900	19⅜	+⅜
Micron Tech	6,820,600	42¾	-2⅞
Coca Cola	6,286,800	58¾	-1¼
Bay Netwk	5,725,900	32¾	+⅛
Wal-Mart	5,631,200	35⅛	-¾
SL Green	6,245,900	25	+4
Pep Boys	5,600,700	26⅞	-6¾

■ TRADING ACTIVITY

● Volume (million)

	Aug 15	Aug 14	Aug 13
New York SE	538.550	528.726	587.880
Amex	21.114	22.174	24.935
NASDAQ	(u)	586.587	659.383
NYSE			
Issues Traded	(u)	3,380	3,383
Rises	(u)	1,523	1,364
Falls	(u)	1,261	1,471
Unchanged	(u)	596	548
New Highs	(u)	104	104
New Lows	(u)	17	25

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Sep	927.95	898.05	-30.10	930.45	898.05	61,576	186,250
Dec	933.25	908.50	-0.25	934.00	908.50	1,233	8,454
■ Nikkei 225							
Sep	19400.0	19440.0	+160.0	19480.0	19300.0	17,176	177,561
Dec	19330.0	19360.0	+160.0	19400.0	19300.0	42	13,274

Open interest figures for previous day.

† Correction. * Calculated at 16.50 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

■ Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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■ TOKYO - MOST ACTIVE STOCKS: Friday, August 15, 1997

	Stocks Traded	Closing Prices	Change on day
Fujita Corp	13.8m	90	-15
Sakura Bank	9.4m	766	+33
Towa Real Est	8.3m	90	-41
LTCB	6.4m	586	+14
Toko	5.1m	1010	+10
Hitachi	5.0m	1240	-20
Daiwa Bank	4.7m	623	+40
Fujitsu	4.8m	1700	
Nippon Steel Cp	4.6m	318	-1
Fuji Bank	4.5m	1570	+30

4 pm close August 15

NEW YORK STOCK EXCHANGE PRICES

- A -

1997 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
38 7/16	24 1/16	AAR x	0.48	1.4	26	489	34 1/2	34 1/16	34 7/16	-1/16
53 3/4	33 1/8	AMP x	1.04	2.2	40	3907	50	48 1/4	48 1/4	-1 13/16
110 3/16	78 1/4	AMR			8	1972	104 3/8	103 3/8	103 5/8	-5/8
37 5/8	29 1/2	ASA x	1.20	4.0	20	535	30 5/8	30 1/8	30 1/4	-3/8
68 13/16	49 3/4	AbbtL x	1.08	1.8	24	17425	63 3/16	60 13/16	60 3/4	-2 7/8
20 1/2	14 1/8	Abitibi	0.40	2.1	9	849	19 7/16	18 7/8	18 13/16	-1/4
25	17 3/8	ABM Ind	0.40	1.8	22	173	24 1/2	24 3/16	24 1/2	+3/16
24 1/8	17 3/4	Acptncdn			11	494	22 3/16	21 13/16	21 13/16	-1/16
87 1/4	56 1/8	ACE Ltd	0.88	1.1	11	880	81 1/8	80 7/16	80 7/16	-7/8
10 3/4	10	ACM Gvt In x	0.90	8.7	11	201	10 1/16	10 3/8	10 3/8	
9	7	ACM OxOpp x	0.63	8.3		383	7 5/8	7 1/2	7 5/16	-1/16
10 5/16	9 1/4	ACM Man x	0.90	9.1		125	9 13/16	9 7/8	9 7/8	
10 3/8	6 1/8	Acme Elect				33	6 5/16	6 3/4	6 3/4	-1/8
20	13	Acme Mts				134	14 1/4	13 15/16	14 1/4	+1/4
22 11/16	14	ACNielsn			38	1186	21 3/16	20 7/8	21	-1/16
29 3/4	19 1/8	Acuson				515	25 13/16	25 1/2	25 13/16	+1/16
24 3/8	19 3/8	Adams Expr x	0.56	2.3	1	168	23 7/8	23 9/16	23 9/16	-1/16
48 1/2	24 7/8	AdvMic				7902	32 15/16	32 3/16	27 1/2	-3/8
27 1/2	10 3/8	Advest Grp	0.12	0.5	16	109	22	21 13/16	21 3/8	-1/4
18 13/16	11 3/8	Advo Inc			18	92	17 3/4	17 1/2	11 1/2	-1/4
78 7/8	61 1/8	Aegon	1.31	1.8	10	1401	69 3/4	80 1/16	68 7/16	-2 1/4
9 3/4	3 1/2	Aerflx				590	9 9/16	8 1/8	8 9/16	-1/4
55 3/16	23	Aero-V x	0.80	1.5	18	760	54 3/8	53 7/8	54 3/16	+1/8

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE PRICES

4 pm close August 15

Continued from previous page

39¾	17¾	Zero x	0.12	0.4	20	38	27$\frac{1}{16}$	27¼ 27⅜
12$\frac{7}{16}$	10¾	ZweigFdx	1.20	9.8		582	12$\frac{5}{16}$	12$\frac{3}{16}$ 12$\frac{3}{16}$ -$\frac{1}{16}$
9$\frac{1}{16}$	0	Zweig Tot x	0.84	9.4		334	0	8$\frac{15}{16}$ 8$\frac{15}{16}$

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

u-new yearly low. P/E price-earnings ratio. xd-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

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AMEX PRICES

4 pm close August 15

NASDAQ NATIONAL MARKET

4 pm close August 15

- L -

Labone	0.72	45	26	17	16½	16¾	-¼
Ladd Furn		22	32	16⅛	15⅞	16	
Lam Rsch			10989	59⅛	57½	58	-1¼
Lancaster	0.72	19	244	49½	48⅞	48⅞	-⅝
Lance ♣ x	0.96	24	478	u21⅞	21	21⅝	+⅝

- R -

Rainbow♣		13	48	18⅜	17¾	17¾	-⅝
Rallys			170	2⅛	2	2⅛	+$\frac{1}{16}$
Raymond	0.25	19	20	32⅞	32⅞	32⅞	
RCSB Fin	0.60	17	118	48$\frac{7}{16}$	47⅝	47¾	-1
Read-Rite		27	6723	27⅜	26¾	26$\frac{13}{16}$	-¼
Recoton		18	523	13⅛	12½	12¾	-¼

- X - Y - Z -

Xilinx♣		35	10580	51¾	49$\frac{11}{16}$	50$\frac{3}{16}$	-1¼
Xircom		23	2177	14$\frac{7}{16}$	13$\frac{11}{16}$	13$\frac{13}{16}$	+$\frac{1}{16}$
Xoma Corp			4164	6⅜	6⅛	6$\frac{3}{16}$	-¼
Yahoo			3690	49¾	48½	48½	-1⅞
Yellow			2191	27⅜	26⅝	26$\frac{11}{16}$	-$\frac{3}{16}$
York Rsch		10	278	6$\frac{1}{16}$	5⅞	6$\frac{1}{16}$	+$\frac{1}{16}$
ZionsUtah	0.48	10	289	36⅛	35½	35¾	-⅛

EASDAQ

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$2.875		0	8.25	2.875	Lernout & Hauspie	US$28.125	-0.875	2400	34	23
Artwork Systems	US$9.75	-0.125	0	11.125	8.75	Memor Int'l	US$10.625	+0.5	8	11.75	8.125
Chemunex	FFr10.5		133072	18	10.5	NTL	US$22.125	-0.625	0	25.125	21.625
Dobonair Holdings	GBP5.7	+0.05	21000	7.15	4.5	PixTech	US$3.5		0	6.125	3.5
Dr Solomon's ADS	US$25.125	-0.5	4000	28.375	16.875	Schoeller-Bleckmann	Sch1265		14000	1303	900
EDAP TMS	US$8.9375		0	9.125	6.9375	Topcall Int'l	Sch3255		1300	3383	3085
Esprit Telecom ADS	US$6.375		0	12.25	5.375	Turbodyne Technol	US$3.85		0	3.98	3.85
Innogenetics	US$10.125		0	12.75	10.125						

Prices for 15/8/97. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at HTTP://WWW.EASDAQ.be EASDAQ offices are located in Brussels (Tel. 32-2 1227 65 20) and in London (Tel. 44-171 / 489 9890).

FT GUIDE TO THE WEEK

MONDAY 18

German outlook

Günter Rexrodt, Germany's economics minister, makes his department's traditional summer announcement regarding the economy. Previous forecasts for unemployment look low, but Mr Rexrodt may feel he can be more upbeat about prospects for economic growth: Helmut Kohl, the chancellor, has already indicated that the 2.5 per cent growth expected this year may be exceeded. The summer report has added sensitivity this year because the pace of economic growth will help determine whether Germany can meet the financial criteria laid down in the Maastricht treaty for membership of the planned European single currency bloc. The government's report is followed by publication of the Organisation for Economic Co-operation and Development's latest survey on Germany tomorrow.

US-Japan trade talks

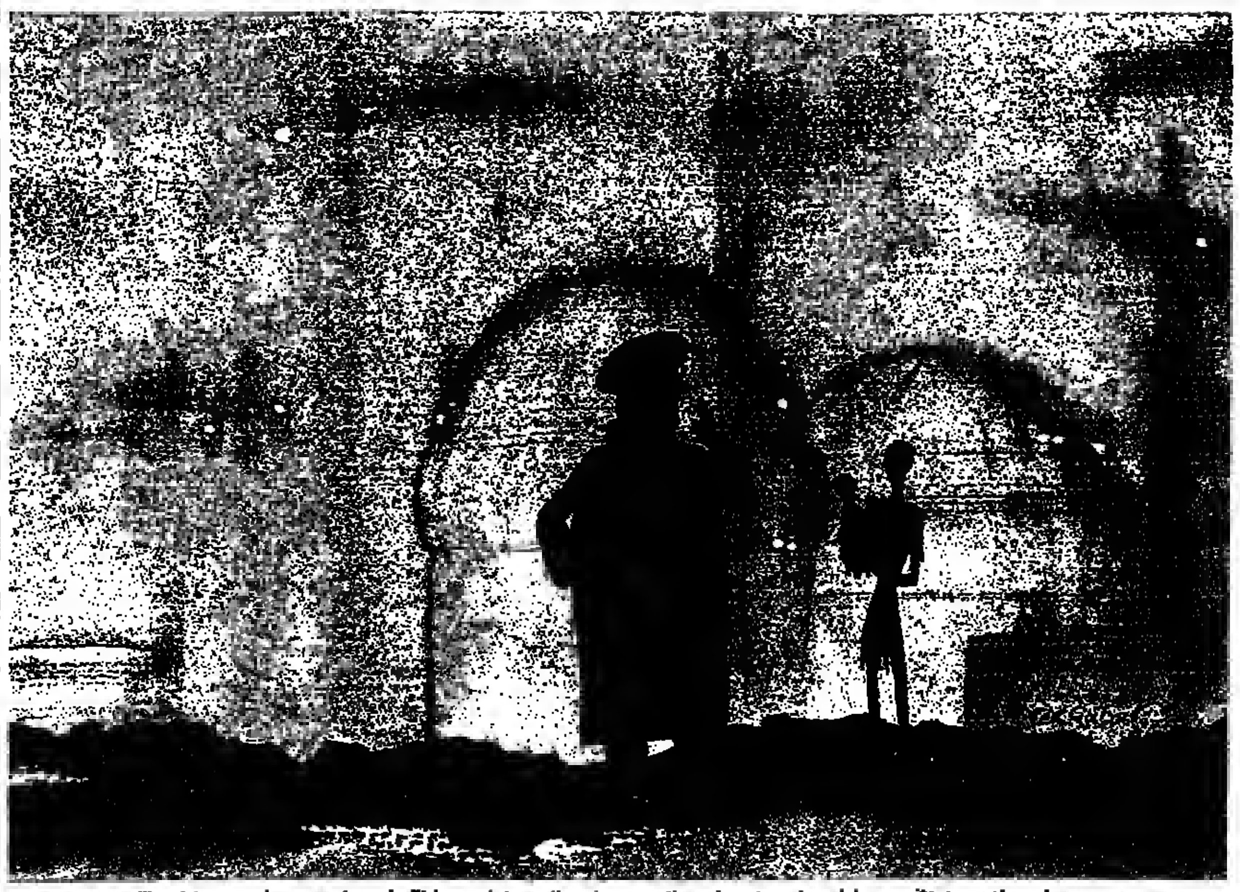
Senior US trade negotiators arrive in Tokyo to discuss proposals for financial services deregulation before World Trade Organisation talks on opening these markets. Jeffrey Lang, deputy US trade representative, will also meet Japanese industry executives to discuss deregulation and other trade issues. The US officials will then tour Korea, Malaysia, Indonesia, India and Thailand to try to persuade these countries to improve their proposals for the WTO talks. Thailand's financial crisis has fuelled regional concerns that liberalisation of financial markets could hurt domestic banks and encourage excessive speculation.

Ready, steady, Go

A feast for games addicts starts today with the first annual Mind Sports Olympiad at the Royal Festival Hall in London (to 24). Competitors will be able to play a range of strategy games, including chess, bridge, backgammon and Go. In addition to the classic games, there will be competitions in those invented more recently, including Abalone, Continuo and Mastermind. Anyone can compete for gold, silver and bronze medals and other prizes. There will also be a range of exhibitions, from electronic games to antique chess sets. The world's top players in some of the games will be putting on displays.

Komura visits Burma

Masahiko Komura, Japan's vice-foreign minister, visits Burma for talks with leaders of the military junta as part of a week-long tour of south-east Asia. Mr Komura, the most senior Japanese official to visit Rangoon since 1992, will convey Tokyo's congratulations on Burma's recent admission to the Association of South-East Asian Nations, and also urge the country to promote democracy and human rights. The approach reflects Japan's cautious stance towards its neighbours. Mr Komura will later travel to Vietnam for talks with government officials and to visit Japanese business and aid projects.



North Korea will get two nuclear reactors, built by an international consortium, in return for giving up its current nuclear programme

TUESDAY 19

Holocaust negotiations

The Bonn government starts two days of talks with the Jewish Claims Conference about improving compensation for Holocaust survivors. Germany has compensation arrangements for survivors living in the country. Other international agreements help those in countries such as Poland, Russia and Ukraine. But Jewish leaders want to improve the position of survivors across eastern Europe and Bonn has indicated it is prepared to reach a speedy conclusion. The talks will be led by Friedrich Bohl, minister in the chancellor's department, and a minister from the federal finance ministry.

N Korean reactors

Ground-breaking for two North Korean nuclear reactors to be provided by an international consortium takes place at Sinpo on the country's east coast. The Korean Peninsula Energy Development Organisation, which includes the US, South Korea and Japan, undertook the $4bn (£2.4bn) project in return for North Korea's abandoning its current nuclear programme, capable of producing weapon-grade plutonium. Nearly 100 Sonth Korean engineers are working at the construction site in the first significant sign of inter-Korean co-operation since the 1950-53 Korean war.

Jet-car record bid

Colin Fallows, a grandfather and trained midwife, sets out to break the 300mph UK jet-car barrier at Elvington aerodrome, near York. Mr Fallows, a highly experienced racer of dragsters, and his partner, Mark Newby, will make the attempt in a car powered by an engine from a Royal Air Force Red Arrows Gnat aircraft. The target average speed is 300mph, with a peak of 350mph, on the two-mile runway. The car has, unofficially, reached speeds as high as 407mph. Braking is down to twin parachutes of the type normally used by RAF Jaguar aircraft.

Iranian verdict

Iran's 270-member assembly will consider the 22-man cabinet list submitted by Mohammed Khatami, the country's new president, last week. It is due to deliver its verdict by tomorrow. The list struck a balance between hardliners and moderates. The May election of an outward-looking leader raised hopes in the west for more stable policy-making in Iran. But in the first test of his presidency, Mr Khatami opted largely for compromise with hardliners and the conservative-dominated majlis (parliament), which confirms cabinet appointments. Mr Khatami's most controversial choice is Ataollah Mohajerani, the new minister of culture and Islamic guidance, who has been the target of conservative attacks.

Moscow take-off

Russia may display the MFI, a new generation combat plane, at the Moscow air show (to 24), according to some reports. The multi-functional fighter was developed by the Mapo company, which builds Russia's MiG aircraft. But the aircraft may not be on public view. A Russian official has said the new fifth-generation Russian combat aircraft would be displayed to government leaders only. In addition the Kamov Ka-52 Alligator helicopter, flown for the first time on June 25, will be part of the flight display. More than 300 companies from 24 countries will be represented.

Festival continues

The second week of the Edinburgh Festival continues with an appearance by the San Francisco Ballet today and tomorrow. The company is making its first appearance in Edinburgh for many years and is performing triple bills of ballets choreographed by Mark Morris, George Balanchine and David Bintley, among others.

WEDNESDAY 20

French cabinet agenda

The French government is due to reconvene in Paris for the first cabinet meeting after the summer holidays. Items on the agenda are expected to include youth employment plans, drawn up in line with a Socialist election promise to create 350,000 public sector jobs, and the deficit reduction measures announced last month by Dominique Strauss-Kahn, finance and industry minister.

Star gathering

The Japanese emperor and empress will attend a two-week general assembly of the International Astronomical Union in Kyoto (to 31). The conference is held every three years in different member countries and is one of the largest regular gatherings of astronomers.

Hazardous Mir mission

The drama surrounding the Mir space station continues as the three crew on the craft attempt to re-enter the airless Spektr laboratory module. It has been sealed off since it was gashed in a collision on June 25, and may contain dangerous floating debris. The men have to reattach cables to restore power supplies from Mir's solar panels.

THURSDAY 21

Taiwan reshuffle

Taiwan's ruling Nationalist party is expected to stage a cabinet reshuffle before its party congress on August 24-28. Lien Chan, the premier, will step down in favour of Vincent Siew, a legislator and former economic planning minister. John Chang, the foreign minister, is expected to become vice-premier and retain his current position also following the reshuffle. The cabinet reshuffle was originally set for August 30. President Lee Teng-hui, who doubles as party chairman, is believed to have moved the cabinet changes forward to boost support for Mr Siew in the central standing committee, the party's highest policy-making body.

The Pope visits Paris

Pope John Paul II will make his sixth visit to France (to 24). He will attend a Catholic world youth festival in which 135 countries, including Iraq, Lebanon and Iran, will participate. Thousands of young people will go to Paris for the festival, starting on August 18, but organisers are worried that the turnout could fall far short of expectations. Monsignor Michel Dubost, chief organiser of the church's World Youth Days which begin on Monday, has said 500,000 people might attend a papal mass to be given on Sunday in western Paris. A few days earlier, organisers had said as many as 650,000 people would attend. Officials say far fewer young people than forecast have signed up to attend the youth festival and fewer families than expected have agreed to house the youths during the four-day celebration.

Tokyo-N Korea meeting

Japanese and North Korean officials are to hold an informal meeting in Beijing in an attempt to reopen talks on normalising diplomatic ties suspended in late 1992 after Japan accused North Korea of kidnapping Japanese nationals. This week's meeting follows an offer by Pyongyang to allow Japanese wives of North Korean men to visit their relatives in Japan, one of Tokyo's main pre-conditions for resuming talks.

Cricket

England meet Australia in the sixth Test at the Oval, London.

FRIDAY 22

Cefta farm talks

Agricultural ministers from the Central European Free Trade Agreement countries meet in the North Slovenian city of Maribor (to 23). The Czech Republic, Hungary, Poland, Slovakia and the hosts will be joined by a new member – Romania. Liberalisation of farm trade between Cefta countries has gone much more slowly than tariff reductions for industrial products. The host country, president of Cefta for this year, is likely to come under fire for holding up negotiations. Bigger economic and political issues will wait for a Cefta prime ministers' summit in September.

SATURDAY 23

Carnival time

Start of the 1997 Notting Hill Carnival, the biggest street festival (to 25) in Notting Hill, London.

SUNDAY 24

Dalai Lama on the air

China's state television is to broadcast a 90-minute documentary on the life of the Dalai Lama, Tibet's exiled spiritual and religious leader. The overseas service of China Central Television will broadcast the Chinese version today, while the English version is scheduled to begin on August 31. The Chinese-produced documentary covers the life of the Dalai Lama until 1959, when he fled Tibet into exile in India after an abortive uprising against communist rule. It features more than 20 first-hand accounts of historical events, including interviews with the Dalai Lama's relatives, serfs and fellow villagers. Last year China protested against the release of *Kundun*, a Walt Disney movie about the Dalai Lama's early life, and barred Martin Scorsese, its director, from travelling to Tibet.

Motor racing

Belgian Grand Prix at Spa Francorchamps.

Athletics

IAAF Grand Prix meeting, Cologne.

Compiled by Bob Vincent
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ECONOMIC DIARY

Other economic news

Monday: The UK government is expected to have received about £1bn more in tax revenue than it spent last month, reflecting buoyant value added tax receipts. The Philippines trade deficit is thought to have narrowed in June.

Tuesday: Housing starts in the US are forecast to have accelerated in July, with the elimination of capital gains tax on most real estate sales promising buoyant activity ahead. Economic growth in Mexico may have picked up in the second quarter.

Wednesday: Growth in UK retail sales is thought to have slowed in July, following heavy spending from windfall demutualisation payments in previous months. The US trade deficit is forecast to have narrowed in June, but not by much.

Thursday: The Bank of England will be watching for any upward revision to the 0.9 per cent provision estimate for UK economic growth in the second quarter. The UPS strike may push up weekly jobless claims in the US.

Friday: Retail sales growth in the Netherlands is forecast to have risen in June.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	July pub. sect. borrowing requirement	-£800m	£4.8bn
Aug 18	Canada	June manufacturing new orders	1.0%	-2.4%
	Canada	June manufacturing shipments*	1.0%	-0.2%
	Japan	Aug. wholesale price ind.(1st 10 day)		0.3%
Tues	Sweden	July consumer price index*	0.15%	0.1%
Aug 19	Sweden	July consumer price index**	1.2%	0.8%
	Canada	July consumer price index all items*	0.1%	0.2%
	Canada	July consumer price index all items**	1.9%	1.8%
	Canada	July CPI ex. food and energy**	1.9%	2.0%
	US	July housing starts	1.45m	1.45m
	US	July building permits		1.40m
	US	Bank of Tokyo-Mitsubishi 18 August		-0.5%
	US	July export price index		-0.1%
	US	July import price index		0.4%
	Canada	June wage settlement increase**	1.7%	1.6%
	US	Redbook 18 August		0.9%
Wed	UK	July retail sales*	0.4%	0.6%
Aug 20	UK	July retail sales**	5.9%	5.3%
	UK	July M4*	0.7%	0.9%
	UK	July M4**	11.7%	11.6%
	UK	July M4 lending	£6.0bn	£5.5bn
	US	June trade: goods and services	-$10.0bn	-$10.2bn
	US	June gds & servs exprt (Bal. of Pay.)	$77.4bn	$77.2bn
	US	June gds & servs imprt (Bal. of Pay.)	$87.5bn	$87.5bn
	Canada	June wholesale trade*†	0.9%	1.0%
	Canada	June merchandise exports*†	0.8%	-0.1%
	Canada	June merchandise imports*†	1.0%	-1.6%
	Canada	June merchandise trade surplus	$2.1bn	$2.0bn
Thurs	Japan	June coincident index	60%	75%
Aug 21	Japan	June leading differentials index	35.0%	33.3%
	UK	second quarter provisional GDP***	0.9%	0.9%
	UK	second quarter provisional GDP**	3.4%	3.4%
	US	Initial claims of August 18		316,000
	US	State benefits August 8		2.264m
	Canada	June Int'l C$ securities transactions	C$500m	-C$3.5bn
	US	August Philadelphia Fed index	22.5	28.1
	US	July Treasury budget	-$22.0bn	$54.5bn
Fri	Canada	June retail sales*†	0.6%	0.5%
Aug 22	Italy	August cities consumer price index*	0.1%	0.0%
	Italy	August cities consumer price index**	1.6%	1.6%
	NZ	second quarter labour cost index: all	0.6%	0.7%
	NZ	second quarter labour cost index: priv	0.8%	0.7%
During the week...				
	Germany	July producer price index*	0.1%	0.1%
	Germany	July producer price index**	1.4%	1.4%
	Germany	July M3 from fourth quarter 1996 base	8.3%	6.4%
	Germany	July M3 from fourth quarter 1995 base	7.3%	7.4%
	Germany	July private lending, 6mth annualised	7.3%	7.2%
	Japan	August trade balance (first 10 days)		Y236bn

*month on month; **year on year ***quarter on quarter †seasonally adjusted

Statistics, MMS International

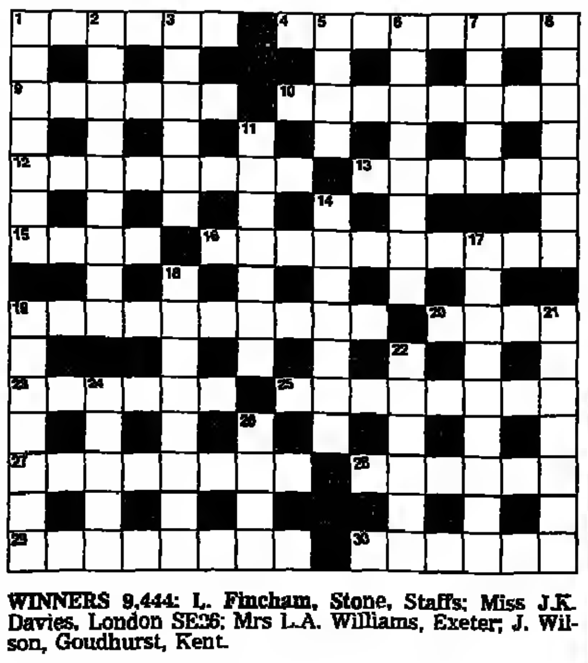
JOTTER PAD

ACROSS

1 Left hands? (6)
4 Own no pearls perhaps (8)
9 Disturbed, gets up and dresses (3-3)
10 Its members are outnumbered (8)
12 Notice work getting into shape for a takeover (8)
13 Declare at cricket match (6)
15 Repeat after some reflection (4)
16 Convincing vice-consul is difficult (10)
18 Do get a line reconnected to the embassy (10)
20 A long way off getting a return of service (4)
23 Spares may be few and far between (6)
25 Best beef to sell more cheaply than other butchers (8)
27 It's always used up when needed (8)
28 Dressing with enjoyment (6)
29 Entered the lists? (8)
30 One may play it – and one may get licked (6)

DOWN

1 Bags of travellers in the van (7)
2 Promise that makes both alter (9)
3 Highly bumptious? (6)
5 Prepare to put out with the rising tide (4)
6 Loudly call out twice after a plea for silence (5,3)
7 Is involved in one dreadful row (5)
8 Still getting in after hours, showing childish habits (7)
11 Small company having unusually short Roman soldiers (7)
14 Bill is an aristocrat, it's said (7)
17 Not nice if spoiled by contamination (9)
18 Type of porcelain food container (8)
19 Don't agree to place in rearranged side (7)
21 Set of teeth chatter uncontrollably (7)
22 The ore is converted to this (6)
24 A shade of caution (5)
26 This may lead us to the light (4)



WINNERS 9,444: L. Fincham, Stone, Staffs; Miss J.K. Davies, London SE26; Mrs L.A. Williams, Exeter; J. Wilson, Goudhurst, Kent.

MONDAY PRIZE CROSSWORD
No.9,456 Set by DANTE

Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday August 28, marked Monday Crossword 9,456 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday September 1. Please allow 28 days for delivery of prizes.

Name.................................

Address.................................

....

Solution 9,444